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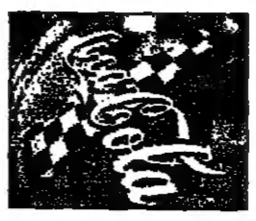
THURSDAY APRIL 8 1999

Policing science
Battle against fraud in the lab
Page 12

ECB interest rates
Why a cut might help the euro
Page 3



Coca-Cola's travails
No place left to sell a Coke?
Page 22

Reed Elsevier
Still looking for a leader
Page 26

WORLD NEWS

Clinton says China's entry into WTO would benefit US

President Bill Clinton said China's entry into the World Trade Organisation was strongly in US interests, as expectations rose in Washington that negotiators would reach an accord to pave the way for China's WTO membership. Page 18; Theft of N-secrets, Page 8; China's currency pledge, Page 4; China Telecom split, Page 24

Russian businessmen vow to fight Boris Berezovsky and Alexander Smolensky, two of Russia's most influential businessmen, pledged to return to Moscow to fight accusations of corruption levelled against them. Europe, Page 3

Rome backs Libya over summit Libya could take a first step towards re-entering the international community next week as Rome presses for it to be admitted to a summit on free trade and security in Stuttgart. International, Page 5

Developing nations face low growth Developing countries face their slowest rate of economic growth for 17 years in 1999, the World Bank warned. Page 18; Aid falls to 18-year low, Page 5

Tax plan proposal aimed at UK The European Commission is examining a compromise plan that could persuade the UK to lift its threat to veto the introduction of an EU-wide withholding tax on income from savings and investments. Europe, Page 3

Setback for gun lobby in Missouri The US gun lobby lost a high-profile referendum in Missouri that would have legalised the carrying of concealed weapons. US, Page 8

BoJ's $328bn Y2K contingency plan The Bank of Japan has disclosed details of a Y40,000bn ($328bn) contingency plan to tackle unforeseen Year 2000 computer problems. Asia-Pacific, Page 4

Chávez rejects reform legislation Hugo Chávez, Venezuelan president, tested his strength against Congress by demanding economic and state reform legislation be redrawn. Latin America, Page 8

Security Council starts Iraq talks With scant signs of unity, the 15-member UN Security Council began discussions on its deadlocked policy on disarmament and sanctions in Iraq. International, Page 5

Taiwan satellite may anger China Taiwan's plans for a an $80m earth-observation satellite with potential military applications are set to raise diplomatic issues with China. Asia-Pacific, Page 4

Dutch hit by gloomy forecast The Dutch official forecast for economic growth this year was cut to just 2 per cent, signalling potential problems for the government in meeting its budgetary targets. Europe, Page 3

Double blow for tobacco industry The US tobacco industry suffered a double blow as a California judge ruled that Philip Morris would have to pay $25m of a $51.5m jury award, and the Justice Department signalled it intended to press ahead with a federal lawsuit. US, Page 8

BUSINESS NEWS

Olivetti warning for Telecom Italia shareholders

Olivetti warned Telecom Italia shareholders it would make them "feel sorry" if they decided not to back its €60.4bn ($65bn) hostile bid for its Italian telecommunications rival. Olivetti said if the bid failed it would mount a competitive assault against Telecom Italia. Companies and markets, Page 19; Lex, Page 18

Kvaerner, the Anglo-Norwegian engineering and shipbuilding company, announced the departure of a senior executive, paving the way for a re-organisation. European companies, Page 20

Seagram shares rose sharply after the Canadian group, the world's leading music distributor, announced a plan to join forces with Bertelsmann to sell discs online. US and Canadian companies, Page 22

Alcoa, the world's biggest aluminium producer, shook off a slide in aluminium prices and the effect of the Brazilian crisis to post a surprise increase in earnings. US companies, Page 22

British Telecommunications has added to its presence in the Asia-Pacific region by paying £240m ($385m) for a 20 per cent stake in SmarTone, Hong Kong's third largest mobile operator. Companies and markets, Page 19; Observer, Page 17

The Slovak government plans to sell its 36 per cent stake in Globtel, the country's leading mobile telephone operator, which could allow France Telecom to win majority control. European companies, Page 20

UBS, the Swiss bank, re-affirmed that plans are under way to sell hundreds of properties in Switzerland, in a move that could raise up to SFr3bn ($2bn). International companies, Page 22

Duke Energy, the US power group, vowed to fight for control of Endesa Chile, the country's largest electricity generator. US companies, Page 22

The Industrial Bank of Japan has unveiled a three-pillar strategy to defend its share of Japan's lucrative investment banking market from western brokers. Asia-Pacific companies, Page 24 companies, Page 24

Revlon, the US cosmetics group, confirmed it was considering disposals following weeks of speculation about a $3bn-plus takeover. Companies and markets, Page 19; Lex, Page 18

The Financial Times and The Wall Street Journal, which compete around the world in business journalism, are to join forces for the first time to help launch a business newspaper in Russia. European companies, Page 20

Owing to technical problems at FTSE International, some tables and graphics could not be updated for this edition.

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
Page 38

ALLIANCE PUTS 'KEY QUESTIONS' TO MILOSEVIC ● SERB COMMANDERS NAMED AS POTENTIAL WAR CRIMINALS

Nato hardens stance on Kosovo

By Our International Staff

Nato yesterday spelled out in the clearest terms yet the conditions for ending its air campaign against Yugoslavia, reinforcing its rejection of President Slobodan Milosevic's unilateral ceasefire declaration.

The Nato allies rammed home their message with further air strikes and the naming of nine Serb commanders in Kosovo as potential war criminals.

Official Serbian media said the third corps of the Yugoslav army had halted its operations against the rebel Kosovo Liberation Army as of Tuesday evening, following the ceasefire. But Nato said Mr Milosevic would have to answer five "key questions" before Nato would cease its actions.

The alliance asked if he was prepared:

- for verifiable cessation of all combat activities and killings.
- to withdraw military, police and paramilitary forces from Kosovo.
- to agree to the deployment of an international security force.
- to permit the unconditional return of all refugees and unimpeded access for humanitarian aid.
- to join in putting in place a political framework for Kosovo on the basis of the Rambouillet accords.

"We very much hope that the next time Mr Milosevic gets back in touch he will answer these questions," said Jamie Shea, the Nato spokesman. Mr Shea added that Nato saw Mr Milosevic's offer on Tuesday night as "perhaps a chink in the armour, and a gradual coming to terms with reality".

A Nato official said the alliance had successfully attacked armoured vehicle columns in Kosovo, its first direct strike against units primarily involved in carrying out the mass expulsion of ethnic Albanians.

But there was growing concern yesterday about the fate of hundreds of thousands of Albanians who had left their homes in Kosovo, after the Yugoslav authorities closed the main border crossings to Macedonia and Albania.

And refugee agencies were also worried about what had happened to 30,000 refugees who were forced by the Macedonian government to leave a border camp.

Meanwhile, CNN television reported from Pristina, the capital of Kosovo, that Nato air strikes on Tuesday night had hit fuel storage dumps and severely damaged the city centre.

It reported "collateral damage to civilian areas" and quoted local officials as saying 10 bodies had been pulled from the rubble. The hardening of the Nato line coincided with a marked increase in diplomatic activity between the allies, and attempts by non-Nato parties to mediate between the alliance and Belgrade.

Spyros Kyprianou, the acting president of Cyprus, called off a mission to Belgrade to secure the release of three captured US servicemen because Nato would not give clearance for his aircraft to fly from Athens. He is due to try again today.

Reporting by Neil Buckley in Brussels, Guy Dinmore in Belgrade, Steven Fidler in Washington

Aftermath of a tragedy: Refugee agencies are worried about what has happened to 30,000 refugees made to leave this border camp by Macedonian police AP

Kosovo crisis, Page 2; Nato's unhappy birthday, Page 16; Tide may be turning, Observer, Page 17

US, EU set to end trade fight on banana imports

By Samer Iskandar in Paris

An end to the long and damaging trade dispute between the US and the European Union seemed in sight last night after the EU said it would abide by a World Trade Organisation ruling on banana imports.

However, Brussels signalled it might appeal against some of the WTO decisions.

The WTO ruled this week that the damage suffered by US companies because of the EU's preferential treatment for bananas from former European colonies in the Caribbean and elsewhere was significantly lower than the US had initially estimated.

It limited the scope of Washington's retaliatory measures and postponed a decision on whether it was legal for the US to impose sanctions on the EU.

In a statement issued in New Delhi, where he is on a visit, the acting EU trade commissioner, Sir Leon Brittan, said that Brussels reserved the right to appeal but would "naturally abide by the rules applicable in the case of such decisions".

The ruling meant there was now "a basis to settle the dispute" with the US, said Simon Fraser, an official in Sir Leon's office.

"We have said these measures were excessive," he added, and the US would have to scale them down.

However, the EU suffered a setback in a related case when a WTO arbitration panel supported a complaint from Ecuador that the EU's banana import regime, favouring former British and French colonies in Asia, the Caribbean and the Pacific (ACP), was incompatible with WTO rules. Changes introduced by Brussels in January had not eliminated the distortions.

EU officials said yesterday they reserved the right to appeal against the WTO judgment on the regime – though there is no appeal against the sanctions.

In the case brought by the US, the WTO ruled that the damage caused to American companies by the EU's banana import regime amounted to $191.4m a year, well under an earlier US estimate of $520m.

A WTO official said the $191.4m figure was final and not subject to appeal. The US earlier claimed the arbitration award as a major victory. However, it was "too early for either side to claim victory," said Mr Fraser.

The US recently started setting up its retaliatory measures in the form of tariffs of up to 200 per cent on a number of EU products sold in the US.

In Washington, Charlene Barshefsky, US trade representative, said: "The EU has now yet another opportunity to demonstrate that it is willing to respect the rules of world trade and thereby bolster confidence in the WTO as a forum for redressing trade barriers."

Caribbean officials expressed disappointment at the outcome of the WTO investigation, although many had expected it.

France also said it accepted the WTO's decisions, but the ministry of international trade would request a transition period to limit the economic effects on ACP banana exporting countries.

Exporters confused, Page 6
Editorial comment, Page 17

Fed rethinks policy on economic growth

By Gerard Baker in Washington

The remarkable US economic performance of recent years is not a fluke, according to Alice Rivlin, the Federal Reserve's vice-chair.

The US central bank's number two said this situation might have lasting implications for economic and monetary policy.

Ms Rivlin said that policymakers were looking again at the relationship between rapid growth, low unemployment, and prices.

Economists have generally believed that tight labour markets oblige employers to pay higher wages to attract workers.

But Ms Rivlin said there was evidence that low unemployment in recent years had held down inflation by forcing companies to use resources more effectively.

"Economists have had in their head the idea that tight labour markets would lead to inflation and low productivity. We have seen neither," she said.

"It may be that under the present circumstances of fierce global competition the effect of tight labour markets is exactly the opposite".

Employers had instead stepped up managerial innovation and invested more in training unskilled workers, she added.

This might have created the unusually benign conditions of strong productivity growth, wage increases and low inflation.

Ms Rivlin's remarks are a clue to the evolving views of Fed policy-makers on whether the central bank should raise interest rates.

The central bank has refrained from tightening policy in recent months, despite strong growth, because inflation has remained low.

Some have speculated that this inaction reflects uncertainty about what has been happening in the economy.

But Ms Rivlin said that far from making the Fed's job harder, the potentially revolutionary changes under way in the economy actually made policy-making easier.

"If we made the wrong move – allowing more labour market tightness than is desirable – you wouldn't get an explosion. You'd get the beginnings of an uptick in inflation and you'd have time to react."

The US economy has grown at an annual rate of almost four per cent for the past three years, pushing the unemployment rate down to 4.2 per cent, a 29-year low.

Break with tradition, Page 6

WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	9,994.85	(+31.36)
NASDAQ Composite	2,533.09	(-30.14)
Europe and Far East		
CAC40	4,316.04	(+13.56)
DAX	5,052.27	(+86.96)
FTSE 100	6,473.2	(+57.9)
FTSE Eurotop 300	1,284.20	(+9.85)
Nikkei	16,554.50	(+74.79)
US LUNCHTIME RATES		
Federal Funds	4.6875%	
3-mth Treas Bills: Yld	4.41%	
Long Bond	96$\frac{3}{32}$	
Yield	5.51%	
OTHER RATES		
UK: 3-mo Interbank	5$\frac{1}{4}$%	(5$\frac{5}{16}$%)
UK: 10 yr Gilt	111.22	(111.16)
Euro Euribor	2.900%	(2.906%)
Germany: 10 yr Bund	98.81	(98.89)
Japan: 10 yr JGB	102.191	(101.329)
NORTH SEA OIL (Argus)		
Brent Dated	$14.145	(14.475)

GOLD		
New York: Comex		
(Apr)	$280.3	(279.8)
London:	$280.05	(279.05)
DOLLAR		
New York: lunchtime		
£	1.5943	
€	0.9288	
SFr	1.483	
Y	121.355	
London:		
£	1.5955	(1.5896)
€	0.9283	(0.9282)
SFr	1.4782	(1.4833)
Y	121.120	(121.050)
Tokyo close:		Y 120.70
EURO (London)		
$	1.0798	(1.0782)
£	0.6767	(0.6769)
Y	130.761	(130.268)
SFr	1.5959	(1.5963)

Euro-zone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90 (€2.23)	Italy	L3800 (€2.07)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320 (€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr18.00	Latvia	Ls1.65	South Africa	R18
Estonia	EKr34.00	Lithuania	Lt21.00	Spain	Pta325 (€1.95)
Finland	FmK13.00 (€2.19)	Lebanon	LBP3,300	Sweden	SKr20.00
[illegible]	[illegible]	Luxembourg	LFr90 (€2.23)	Switzerland	SFr3.50

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CONTENTS

FATE OF ETHNIC ALBANIANS EU BACKS AWAY FROM FIXED QUOTAS FOR TAKING REFUGEES ■ MACEDONIA SPEEDS UP INFLUX ■ RUGOVA'S ROLE IN NEGOTIATING PEACE DEAL QUESTIONED

Refugee plight worse as Serbs bar crossings

By Stefan Wagstyl in Tirana, Emma Tucker in Luxembourg and agencies

The Kosovo refugee crisis yesterday took a dramatic turn for the worse when the Yugoslav authorities closed their main border crossings to Macedonia and Albania, raising concern about the fate of the ethnic Albanians who had been queueing at the frontier.

The news came as Germany lost its battle to persuade European Union countries to commit themselves to taking fixed quotas of refugees as differences surfaced between member states over how to respond to the influx of displaced people into Albania and Macedonia.

At an emergency meeting of EU interior ministers in Luxembourg, France, Italy, Britain, Spain and Finland backed away from German-led plans to share formally the burden of refugees in response to appeals from the UNHCR, saying priority should be given to providing protection as extensively as possible within the region.

In Bonn, Rudolf Scharping, Germany's defence minister, said he had information indicating that Yugoslav forces had begun forcing some Kosovar Albanians away from the border and back into the province to use as human shields against Nato air attacks.

In a statement, the EU ministers said: "Long-term admission of Kosovars to countries outside the region... would consolidate their displacement from their homes. That would send the wrong signal to the Serbian regime, on which all forms of pressure must be stepped up to put a stop to displacement of people from Kosovo and make it possible for them to return in safety."

However, the ministers agreed to assist "as required" Albania's commitment to take 100,000 Kosovars currently in Macedonia. "This would reduce for the time being the need to create settlement possibilities outside the region," the statement said.

Otto Schily, the German interior minister, who chaired the meeting, said every country had given a "clear undertaking" to support calls from the UNHCR to take in refugees but the decision as to how many needed to be moved would be left to the international body.

"We thought it was best if people could stay in the region where they speak the language and where aid can reach them most quickly and effectively," said Mr Schily.

Jack Straw, the British home secretary, said it was important that "nothing is done within the EU institutions which in any way plays into the hands of [Yugoslav President Slobodan] Milosevic and the Serb terrorists".

"We should not act in any way as to appear to provide Milosevic with the comfort of removing very high numbers of refugees from the region, which is what he wants," he said.

However, he acknowledged that it might in the future be necessary to move people from the area on a temporary basis. Such a move would be based on the voluntary choice of refugees and proposals from the UNHCR.

Germany, aggrieved that it bore the brunt of the refugee crisis provoked by the war in Bosnia, has been pushing for a formal system of burden-sharing by EU member states for some time. However, its efforts have mainly fallen on deaf ears. Germany took in more than 350,000 people displaced as a consequence of the Bosnian conflict – more than all the other EU countries put together.

Separately, the European Commission announced €250m ($269m) in humanitarian aid, nearly half of which will go to Albania and Macedonia, where most of the refugees are now situated. The Commission said the funds should help these countries pay for social costs, registration, electricity, water, sanitation and transport.

The European Council on Refugees and Exile (ECRE) said yesterday that Mr Milosevic's policy of ethnic cleansing would not be reversed by leaving people in the region.

"If moving the refugees to other countries helps them, then that is what we should do," said Peer Banecke, general secretary of ECRE. He said it was not fair to use the refugees as a political tool.

Skopje clears border crush

By Robert Wright in Skopje

The Macedonian government cleared 30,000 refugees from the now notorious border crossing at Blace early yesterday, forcing some of them to go to neighbouring Albania.

At the same time, Yugoslavia apparently closed its border crossings into neighbouring Albania and Macedonia and told refugees to return to their homes in Kosovo. The decision appeared to be related to Yugoslavia's unilateral ceasefire for the orthodox Easter.

The closure was reported to have caused concern among those already inside Macedonia waiting for family members further back in the vast, slow-moving queue. Progress on entry into Macedonia had slowed almost to a halt in recent days because Macedonia, which claims to have 130,000 Kosovo Albanian refugees, had said it could take no more without firm pledges from other countries to take in the refugees.

After the clearing of 30,000 from the field next to the Blace border post, thousands of people were put on more than 100 buses and taken to points on the border with Albania, which said on Tuesday that it was better able to deal with refugees than Macedonia. The Organisation for Security and Co-operation in Europe said at least 14,000 Kosovo Albanian refugees who entered south-eastern Albania overnight came from Blace. Others were taken to newly formed collection centres.

Paula Ghedini, public information officer for the United Nations High Commissioner for Refugees (UNHCR), said: "We are very concerned that families have been separated. People don't want to go to these places" – such as Albania.

However, Ms Ghedini said the UNHCR was glad the field by the border crossing at Blace had been cleared. The field had become a sea of mud, with insanitary conditions. Ms Ghedini said refugees had wanted to leave the field and had queued calmly to leave.

Other accounts suggested Macedonian riot police had been called in to force refugees on to the buses. The operation appears not to have been co-ordinated with international bodies providing relief. However, some people spent the night in the open at the collective centres because the centres had not been told to expect the new arrivals.

Few of the international organisations are clear on what is happening on the Kosovo side of the Macedonian border. There were reports that people who had been waiting for up to a week to cross the border could be seen turning their cars and heading back under police direction for towns such as Pristina, the Kosovo capital.

Macedonia's sometimes rough handling of the huge refugee flows has caused concern. One western diplomat said: "They haven't covered themselves in glory."

However, the government has said it did not have enough money or international help to do things differently.

Riddle over Rugova's role in agonised search for a deal

Followers say the pacifist leader appeared with Milosevic under duress, report **Stefan Wagstyl** and **Guy Dinmore**

Ibrahim Rugova, the Kosovar Albanian leader who appeared last week at the side of Slobodan Milosevic, the Yugoslav president, has left his followers floundering for an explanation of his apparent co-operation with their oppressor.

Among refugees in Albania, the only possible answer is that Mr Rugova is acting under duress. All reject any compromise with Mr Milosevic.

Analysts in Belgrade believe Mr Milosevic is calculating that having seriously weakened the Kosovo Liberation Army (KLA) over the past two weeks he can now try to cut a deal with Mr Rugova. The deal envisaged by Belgrade would involve a partition of Kosovo or a form of autonomy that would leave Serbia in *de facto* control of the province.

With mounting evidence of Serb atrocities in Kosovo, Kosovar Albanians are saying they cannot return to a Serb-ruled Kosovo. For most, independence under Nato protection is the only option. That would seem to rule out any plan Mr Rugova may or may not be discussing with Mr Milosevic.

While most refugees had come to these conclusions soon after Mr Rugova appeared on Serbian television with Mr Milosevic, the Serbian leader's ceasefire offer has brought attention back to the role Mr Rugova may be playing in Belgrade.

"I think he's not in a position to speak freely," said Ilaz Ramajli, Kosovo ambassador to Albania, the only country which recognises Kosovo's independence (it did so in 1991). Any judgment on Mr Rugova's actions must wait until he is seen to be free, he says.

However, Adnan Marovci, an aide to Mr Rugova contacted by telephone in Kosovo's capital of Pristina, where they are effectively under house arrest, said his "president" had demanded that Mr Milosevic withdraw his forces from Kosovo and allow the safe return of refugees under Nato escort.

The aide said Mr Rugova, who had decided not to flee and to stay in Kosovo, had asked the Serbian authorities to allow him to visit certain western countries but no approval had been given so far.

A western diplomat who also spoke to Mr Marovci said Mr Rugova was being manipulated by the Serb authorities and was being used as a hostage. He is guarded by Serb police, along with his wife and two children.

Mr Ramajli says that, whether or not he is acting under duress, Mr Rugova has lost his power by opposing "the will of the Albanian people". The Kosovar Albanians reject any call for a Nato ceasefire unless Serb forces vacate Kosovo, as Nato itself has demanded, says Mr Ramajli, a lawyer.

Jakup Krasnici, political director of the KLA, the guerrilla force fighting the Serbs, says Mr Rugova seems to be acting out of fear or under Serb pressure. However, in a remark that betrays the animosity between the pacifist Mr Rugova and the KLA, Mr Krasnici says that if Mr Rugova has co-operated willingly "he has committed an act of treason against his nation".

Among refugees, the strong support for the KLA suggests that even if it is confirmed that Mr Rugova has acted under duress, he has lost even more of his waning political authority. For most of the 1990s, his peaceful campaigns for Kosovo autonomy won respect at home and abroad. He was backed by a "government" led by Bujar Bukoshi, prime minister living in Germany, where he organised successful fund-raising for Kosovo in the Albanian diaspora.

Many Albanian Kosovars, particularly wealthier urban people, dislike the KLA's belligerence, its alleged links with criminal gangs and its Marxist rhetoric. But in the last year, the increasing aggression of the Serb forces has created a wave of support for the KLA.

At the Rambouillet peace talks this February, Mr Rugova was sidelined as western governments paid more attention to the KLA delegation led by a Hashim Thaqi, a 29-year-old former guerrilla leader. The three Kosovar factions agreed on an interim government with Mr Thaqi as prime minister and other posts shared equally between the KLA, Mr Rugova's Democratic League of Kosovo (LDK) and the United Democratic Movement (LBD).

Since the Rambouillet accord was not implemented, the relationship of the interim government to the existing Bukoshi government was not resolved. Mr Ramajli says they exist side by side. But he insists all Kosovars are united in resisting the Serbs.

In practice, the conflict has radicalised Kosovar opinion to the KLA's great benefit. Even as it is sustaining heavy casualties in the fighting, it is gaining support, including from the refugees. Valdet Bozdhara, a 17-year-old Kosovar refugee in Kukes in northern Albania, is one of dozens of men who in interviews pledged to fight. "We have no choice. We cannot live under Serb rule."

One Kosovo Albanian commentator, who asked not to be named, said Mr Rugova would commit political suicide if he accepted a deal with Mr Milosevic that did not involve the presence of foreign peacekeeping troops.

Ibrahim Rugova

Born Dec 1944 Istog, Kosovo
Father executed three weeks later by Tito's partisans as "an enemy of the Yugoslav State"
Graduated University Pristina in 1971
Studied at the Sorbonne in Paris 1976/77
1989 following abolishment of Kosovo's autonomy elected president of the Democratic League of Kosovo (LDK)
1992 elected president of Kosovo in unofficial underground elections
1995 Dayton Peace Treaty dashes Rugova's hopes of self-government for Kosovo

Albania fears influx could shatter calm

By Stefan Wagstyl

On the dusty outskirts of Tirana young men in leather jackets slouch about in the street. They barely move a muscle when the air is cut by the sound of machine-gun shots coming from a few blocks away. It is, after all, a familiar sound in Europe's most lawless country.

The men in this shabby district are mostly northerners who came from the mountains to the relative prosperity of the capital after the collapse of communism. But few found jobs and Tirana residents blame them for much of the city's violent crime. They call them Chechens after the war-torn Russian province of Chechnya.

If Albania finds it difficult to cope with simple movement of migrant workers, it will struggle to come to terms with the arrival of the refugees who have fled Kosovo in the last two weeks. By late yesterday, there were more than 300,000, or nearly 10 per cent of the Albanian population.

International aid agencies praise the welcome Albania has given the refugees. A common culture and shared hatred of Slobodan Milosevic, the Yugoslav president, has inspired generosity among native Albanians. Yet there are fears that this calm cannot last in a land of chronic economic and political instability.

Knut Vollebaek, the chairman of the Organisation for Security and Co-operation in Europe, warned on a visit to Tirana this week that in both Albania and neighbouring Macedonia the economic situation was "difficult" and the political position "rather fragile".

"The system in any country could be jeopardised" by such a large inflow of refugees, he said.

The government of Pandeli Majko, the 31-year-old prime minister, pins its hopes on the foreign aid that has been promised by the World Bank and other donors. He says Albania must help the ethnic Albanian refugees, including those rejected by Macedonia, even though it cannot afford the costs. Sali Berisha, the volatile opposition leader and former president whose supporters last year staged armed riots, has pledged to avoid taking advantage of the refugee crisis.

But many Albanians have a sense of foreboding.

Zef Preci, director of the Albanian Centre for Economic Research, an independent think tank, said: "Because of its poverty, this country was already in serious difficulty before the crisis." Mr Preci says some business people, for fear of unrest, are already reducing stock, locking away vehicles and equipment, cutting imports and transferring money abroad. The currency has not yet been seriously affected, with the lek falling marginally against the US dollar.

To some extent, the decline in normal commerce is being offset by demand generated by the refugees and by crisis-linked spending by aid workers and other foreigners. But these flows cannot compensate for the uncertainty the war has brought. As Arben Malai, chairman of the parliamentary economic commission, said: "Everything we have done in 1997 and 1998 will be put at risk now."

The gains of the past year were modest by the standards of other post-Communist countries. Albania, Europe's poorest country, emerged from Stalinist isolation into violent chaos, in which men broke open military arsenals and stole an estimated 1m guns. In 1997, the collapse of fraudulent pyramid savings schemes plunged Albania into anarchy, which ended only when an Italian-led international force of 7,000 troops arrived to restore order.

In elections in June 1997, voters threw out the right-of-centre Democratic party government of Mr Berisha, which had been deeply involved in promoting pyramid savings, and opted for a socialist coalition under Fatos Nano, an experienced former communist. However, riots broke out last September after the assassination of a Azem Hajdari, a leading supporter of Mr Berisha. Mr Nano was forced to resign and was replaced by the youthful Mr Majko.

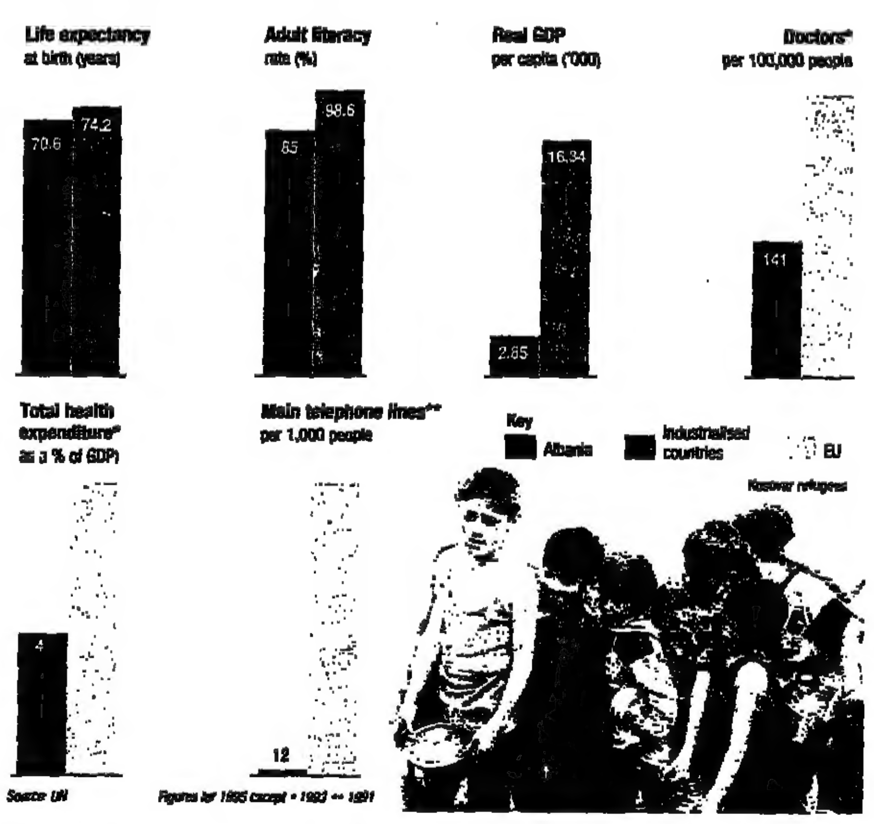
Despite the political turmoil, the economy last year grew 8 per cent, recovering from a 7 per cent decline in 1997. Money flowed in from Albanians overseas, including 400,000 recent emigrants, most of whom live in Greece. The inflow hit a record $421m last year, prompting a surge in house building.

However, the country cannot feed itself. Food is the biggest component in imports, which last year exceeded exports by $602m. The workers' remittances are essential to financing this deficit, as is foreign aid. Some $270m was due to arrive in the first year of a 1998-2001 agreement with the International Monetary Fund and other donors.

Albania is trying to pursue privatisation and other market-oriented reforms agreed with the IMF. But as with so many other chronic problems it is difficult. The government's writ barely runs outside Tirana and even in the capital the police abandon some districts at night to criminal gangs. Smuggling drugs, arms and illegal immigrants to western Europe provide lucrative work for organised crime, some involving Kosovars.

To ease the acceptance of the refugees, aid camps are being spread through Albania. Refugees will receive food, shelter, healthcare and education for their children. But Albania cannot give them work or little immediate prospect of economic security. Of course, if the war ends with the refugees' return to Kosovo, the burden on Albania will be eased. But if it does not, the price for keeping them in Albania could run very high. And not just in terms of money.

Albania: even more mouths to feed



Source: UN · Figures for 1995 except * 1993 ** 1991

Turkey aims to aid Moslem brethren

By Leyla Boulton in Ankara

As the site of a decisive Turkish victory over the Serbs 600 years ago, Kosovo has a unique historical and emotional resonance for Turkey today. Angered by Serb oppression of Kosovar Albanians – many of whom, like the Turks, are Moslems – the Nato member is one of the most enthusiastic supporters of air strikes against Serb targets in Yugoslavia.

"The Serbs have never forgiven us and they consider everybody who is a Moslem to be a Turk," says Altemur Kiliç, a newspaper columnist and retired diplomat who supports Turkey's ultra-nationalist MHP party.

Sultan Murad's defeat of Serb Prince Lazar – whose picture was recently carried by Serb demonstrators alongside that of Slobodan Milosevic, the Yugoslav president – subjugated Serbia to the Ottoman Empire for much of this millennium. Historical ties to Moslems in the now independent Balkan states give Turkish empathy for victims of Serbian "ethnic cleansing" a special edge. Or, as Suna Ongun, an Ankara housewife, put it: "Turkey should help these people more because they are paying the bill for our past."

Turkish fighter aircraft are taking part in the air strikes, while the Turkish equivalent of the Red Cross is readying accommodation for 20,000 refugees at a camp near Turkey's border with Bulgaria.

The feelings are reciprocated by many of the Kosovar refugees already in Turkey. Elmaz Mati, a chemistry teacher from Pristina who was one of the first Kosovars to be airlifted out of Macedonia to the main Turkish refugee camp of Gazi Osman Pasha, named after an Ottoman war hero, said: "The Moslem connection makes us feel close to Turkey and we are grateful to her for taking us in until we can go back to our homes. What is happening in Kosovo is a campaign against Moslems."

Emotion aside, the conflict is pregnant with strategic and political significance for a country that is not only home to 5m ethnic Albanians but sees the Balkans as its backyard.

The timing of Nato efforts to help Kosovars is crucial in two respects. Bülent Ecevit, the Turkish prime minister who has made much of his country's military and humanitarian support for Kosovar Albanians, fights a general election in 10 days.

"The people of Kosovo are our brothers. Their pain is our pain... No country has done as much as Turkey to help the people of the region," Mr Ecevit told an election rally yesterday before moving on to visit the refugee camp.

At a time of tension in its relations with the European Union, Turkey also expects to reap some western recognition for proving to be one of the more staunch pillars of Nato at the alliance's 50th anniversary summit in Washington at the end of this month.

At present, the Nato campaign looks as though it can only boost both Mr Ecevit's election chances and Turkey's international standing. In spite of screaming headlines from opposition newspapers, such as "History will Never Forgive Ecevit" and "Ankara has a Heart of Stone", accusations that the government has done too little too late have so far cut little ice with the public at large.

A protracted war, however, could be fraught with complications for Turkey. The domestic consensus behind Nato action could begin to crumble if the numbers of refugees arriving in Turkey were to get out of hand and Turkish casualties resulted from an eventual decision to deploy ground troops in Yugoslavia, a move which Turkey says it would endorse.

Awkward questions could also multiply over Ankara's logic in continuing to insist on the preservation of Yugoslavia's current borders. Turkey fears that supporting independence for Kosovars could encourage Kurdish separatism within its own borders.

Mr Kiliç, who writes for the conservative Türkiye newspaper, said recent support expressed by Süleyman Demirel, the Turkish president, for both Kosovars and Yugoslavia's territorial integrity was a contradiction in terms.

"Kosovo is surely going to be independent after this so we should stick with Albanians all the way and not be wishy-washy about it," he said.

With additional reporting from Funja Güler at Gazi Osman Pasha Refugee Camp, in western Turkey

Bülent Ecevit: faces a general election in 10 days AP

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Businessmen pledge to fight claims

By Andrew Jack and John Thornhill in Moscow and Robert Graham in Paris

Two of Russia's most influential businessmen yesterday pledged to return to Moscow to fight accusations of corruption levelled against them, while the man who issued warrants for their arrest fought for his own survival in the wake of sexual and financial allegations.

Boris Berezovsky, a Kremlin power broker currently in France, and Alexander Smolensky, the powerful head of SBS-Agro bank, who is in Austria, both claimed the cases brought against them in the last few days were politically motivated and protested their innocence.

In Moscow, Yuri Skuratov, the general prosecutor who launched the investigations, said efforts "conjured" up to force him out of office were illegal, and put his fate in the hands of the Federation Council, the Russian upper house of parliament, which is due to met today.

Mr Berezovsky, whom Mr Skuratov says is under inquiry in relation to the activities of Andava, a Swiss-based company which managed foreign exchange for the airline Aeroflot, refused yesterday to go into the details of the case against him.

At a hastily convened press conference in the rooms of the Hotel Crillon in Paris, flanked by bodyguards, he said: "I intend to return to Moscow next week. I feel obliged to go back to show there is a law that works in Russia."

He said he was a victim of a deliberate attempt by the general prosecutor to incriminate him, and denied he was staying in France to avoid arrest. France and Russia have no extradition treaty. "I have nothing to gain from being seen to hide and avoid going back to Russia when the prosecutor is behaving illegally," he added.

A spokesman for SBS-Agro said that the accusations against Mr Smolensky, whom he said was recuperating from flu, related to an incident seven years ago connected to allegedly illegal bank loans and were "completely without foundation".

Mr Skuratov, who formally resigned for the second time this week, made a thinly veiled attack on the presidential administration as he defended himself in front of the Duma, the lower house of parliament.

He argued that a secretly recorded videotape shown on television which appeared to show him cavorting with two young women violated privacy laws, and that efforts to have him suspended by the Moscow prosecutor's office were also illegal.

Observer, Page 17

Primakov determined to dilute power of oligarchs

Few believe arrest warrants for two of Russia's most powerful businessmen were prompted solely for legal reasons. **John Thornhill** and **Andrew Jack** report

Two questions have resounded in Russia throughout the ages: who is to blame? and what to do?

But in recent years, a third question has been added: who benefits?

As Moscow digested the news that arrest warrants had been issued against two of the country's most powerful "oligarchs" – Boris Berezovsky and Alexander Smolensky – that last question rang out again.

Few were prepared to accept the moves against the two tycoons, who have been so closely associated with President Boris Yeltsin's regime, were prompted solely by legal considerations. Vladimir Ryzhkov, parliamentary leader of the moderate Our Home is Russia party, said the whole judicial process in Russia had become politicised as a result of the current scandal surrounding Yuri Skuratov, the country's top law officer, who has himself been accused of moral – if not criminal – wrongdoing.

"Now whenever there is a criminal case, initiated by the prosecutor general, the question will always arise: who benefits from the political point of view?" said Mr Ryzhkov. It is an indication of the political flux in Moscow that it is difficult to discern the answer.

On the face of it, Yevgeny Primakov, Russia's prime minister, would appear to be the biggest beneficiary. Not only is the move against Mr Berezovsky politically popular. It also eradicates the influence of one of the Kremlin's most pervasive power brokers and rivals of Mr Primakov. Intriguingly, Mr Yeltsin's press secretary denied the president had any prior knowledge that the arrest warrants had been issued.

The attack on Mr Berezovsky also shows the prime minister's campaign against corruption is turning serious. Mr Primakov appears intent on restoring the authority of the state and dismantling the power of the seven oligarchs, who financed Mr Yeltsin's re-election campaign and then reaped the economic benefits. Yet it is hard to view the charges of financial manipulation levelled against Mr Smolensky, chairman of SBS-Agro bank, in the same light.

Indeed, the accusations raise questions about the integrity of Mr Primakov's own government.

In the aftermath of the financial crisis in August, the central bank backed Mr Smolensky and pumped millions of roubles of soft credits into his troubled bank to keep it afloat.

The son of Gennady Kulik, one of the most senior members of Mr Primakov's cabinet, also works as deputy chairman of SBS-Agro bank.

Moreover, some of Russia's other "oligarchs" retain considerable influence.

Mikhail Khodorkovsky, who controls the giant Yukos oil group, even accompanied Mr Primakov on his aborted trip to Washington last month. In spite of vociferous complaints from minority shareholders in Yukos about abuse of investor rights, Mr Khodorkovsky clearly remains a player in the political game.

Vladimir Gusinsky, head of the Media-Most television and banking empire, also appears to have reached an accommodation with the news powers-that-be.

His control of the NTV television station will make him a highly influential figure in the run-up to the parliamentary elections in December.

Though seriously weakened by the financial crisis, Vladimir Potanin, head of the Interros financial-industrial group, is struggling to salvage his business empire. The last of the two oligarchs, Mikhail Fridman and Pyotr Aven, of Alfa Bank, appear to be having more success in reviving the fortunes of their financial-industrial group.

Tempting though it is to sound the death knell for Russia's "oligarchy", it would clearly be premature to do so.

The oligarchs' strength was built on the weakness of the government.

In spite of Mr Primakov's best efforts, the country's continuing economic convulsions are only further eroding the state's powers, leaving plenty of room for big business to wield its influence.

Power brokers: (clockwise from top left) Boris Berezovksy and Alexander Smolensky have had arrest warrants issued against them while Vladimir Potanin struggles to salvage his business empire and Vladimir Gusinsky appears to have come to an accommodation with the authorities Reuters, AP

Dutch hit by gloomy growth forecast

By Gordon Cramb in Amsterdam

The Dutch official forecast for economic growth this year was yesterday cut to just 2 per cent, signalling potential problems for the government in meeting its budgetary targets.

The projection for real gross domestic product is down from the 2.25 per cent increase previously expected by the Central Planning Bureau (CPB) – which was also the minimum annual average assumed when the centre-left coalition in The Hague last year agreed its spending plans to 2002.

The figure compares with a 3.7 per cent increase achieved in 1998.

The CPB said the cause was a sharp weakening in world trade growth, adding that its forecast was still at risk of being too optimistic unless that activity picked up again in the second quarter.

Export performance was likely to be better next year, but an expected easing in domestic demand at that point would leave gross domestic product growth flat at 2 per cent for 2000, the forecasting agency said.

The government deficit, which in Emu terms reached as low as 0.7 per cent of GDP last year, would as a result rise to 1.75 per cent in 1999 before dipping to 1.5 per cent the following year.

Government debt, the one measure by which the Netherlands fails to meet Maastricht criteria for state finances, would come down no further.

ECB ponders if cut would buck up euro

Bank decides today whether single currency would benefit if rates came down

By Alan Beattie

The reaction of the euro to the outcome of deliberations today by the European Central Bank may reveal a curious paradox.

Analysts have for some time believed that the weak euro has been one of the factors reducing the need and the desire of the ECB to cut interest rates.

But a growing feeling in the financial markets is that if the ECB does cut, and particularly if it is accompanied by a strong impression that the aim is to kick-start economic growth, the euro may rise.

Economic theory says that falls in interest rates lower the yield on assets, making them less attractive to investors. Other things being equal, this tends to lead to a fall in the currency. The higher inflation which may follow interest rate cuts also weakens currencies, as they need to fall to let the economy regain competitiveness.

But in a low-inflation environment where economic growth is at a premium, a cut in short-term interest rates may push up interest rate expectations over the next couple of years by raising hopes of faster growth ahead. This may cause the currency to rise.

Such effects on currencies have been evident in the foreign exchange markets in recent months. The pound has remained stubbornly high despite five UK interest rate cuts in the past six months, often rallying immediately after the announcement or during the following day.

The Canadian dollar and Swedish krona have also risen immediately after recent interest rate cuts, even though both moves were largely unexpected by the market.

The US dollar also benefited from the US Federal Reserve steadying the market's nerves with interest rate cuts late last year.

"In another environment, a cut in interest rates might have caused long bond yields to rise because of expected higher inflation and lack of credibility," says Nick Parsons, chief currency strategist at Paribas in London. "But at the moment, with global inflation so low, currencies are trading off expectations of relative growth rates."

Mr Parsons is one of a growing band in the markets who believe that a cut today may strengthen the euro.

"It could well be that if the ECB cuts rates, the improved prospects for a recovery in output later this year support the currency," says Michael Wallace, currency manager at Standard and Poor's MMS. A cut would help the euro-zone economy move away from a period of "sustained stagnation", he says.

Others think that while interest rate cuts can help currencies, the euro-zone economy is not yet in a position to benefit.

"There are two sorts of rate cuts," says Kit Juckes, head of bonds and currencies at NatWest GFM in London. "One is the sort that have helped the Swedish krona and the Canadian dollar recently, where the cuts have been seen as supporting growth and making future cuts less likely."

'Cut would help euro-zone move away from period of stagnation'

But Mr Juckes said a cut by the ECB would be more like recent reductions in interest rates by the Czech central bank, or the slow grind towards zero of Japanese overnight interest rates over the past year. "In this case, the market takes the move as a sign of weakness and as evidence that there are more cuts to come," he adds. Mr Juckes says that even if the ECB does cut, the next move is as likely to be up as it is down.

The largest imponderable is whether the ECB itself signs up to the view that lower interest rates could support the euro. Although ECB officials have played down the significance of the currency's weakness, comments this week by ECB board member Jean-Claude Trichet suggest they will be reluctant to let it fall much more.

So if they do not share the view that an interest rate cut will support the currency, this could be a critical factor in preventing a reduction. The outcome of today's meeting could give an important clue to their thinking.

"If the ECB holds monetary policy steady," says Michael Wallace, "it will show that this leap of faith was too much for them."

Editorial comment, Page 17

Tax plan proposal aimed at UK

By Emma Tucker in Brussels and George Graham in London

European Commission officials are examining a compromise plan which could persuade the UK to lift its threat to veto the introduction of an EU-wide withholding tax on income from savings and investments.

The compromise would protect institutional holders of international bonds from having to pay the withholding tax while hitting individual investors by exempting issues whose minimum holding is more than €40,000 ($43,200).

The threshold is drawn from existing EU legislation on public offerings of securities, but details of how the cut-off would work are still unclear.

Bankers put the idea to the Commission last year but were rebuffed. But Commission officials, currently negotiating with the UK government, now favour the cut-off as less cumbersome than other ideas. However, they say an across-the-board exemption for international bonds has been ruled out as unacceptable to other EU member states.

The proposed withholding tax – part of a package of measures aimed to iron out "unfair" tax competition within the EU – is still opposed by the City of London which claims the tax would drive the international bond market out of the EU to countries such as Switzerland where there is no withholding tax.

Nevertheless, the bond industry is working on ways of limiting damage if the tax is introduced. As a minimum, bankers want existing issues to be exempted by a "grandfather" clause, and future issues aimed at the wholesale market to be excluded by a mechanism such as the cut-off point.

Without British support, the tax cannot be introduced as it has to have the unanimous approval of all 15 EU member states. Gordon Brown, the chancellor of the exchequer, has said he would not support any measure that damaged Britain's economic interests.

Luxembourg also has reservations about the plans which will be discussed by finance ministers at an informal meeting in Dresden on April 16. However, an EU official said there were "worrying signals" from a number of member states, notably France and Belgium, that they were disinclined to accept any exemption for international bonds as the price for winning UK approval.

Bank of Japan cash ready for Y2K

By Alexandra Nusbaum in Tokyo

The Bank of Japan (BoJ) has disclosed details of a massive Y40,000bn ($328bn) contingency plan to tackle unforeseen Year 3000 problems – the first such announcement by a central bank of an industrialised nation and an unprecedented act of disclosure by a Japanese institution.

The funds could be used to cover overdrafts from unexpected demand caused by Year 2000 (Y2K) problems at local financial institutions, according to the Bank. The BOJ said it usually kept a large supply of banknotes on hand, but said these funds would be made available to handle Year 2000 issues.

"The presence of these reserves could eventually forestall a confidence crisis," said Walter Altherr, analyst at Jardine Fleming Securities.

The magnitude of the reserves has reinforced the seriousness with which the BoJ views the millennium bomb, the scenario in which computers misread the year 2000 when represented by "00" as 1900 and fail to process information or collapse.

"We have published our contingency plan as a sign that we are committed to Year 2000 issues and to provide a model for other financial institutions," said the Bank.

"It is important that they develop contingency and action plans that are consistent with ours."

The BoJ disclosure coincides with debate over Japan's level of Year 2000 readiness.

Limited disclosure and sketchy data have fuelled concern among foreign investors that Japan may lag behind other industrialised countries in terms of Year 2000 readiness.

While Japan's financial institutions have been actively modifying and testing their systems in preparation for Year 2000, few companies have developed contingency plans.

About 51 per cent of banks, 53 per cent of insurance companies and 41 per cent of securities companies had carried out tests of critical computer systems, according to September 1998 reports from financial institutions.

However, the percentage of companies with contingency plans in place at that time was far lower: 8 per cent of banks, 13 per cent of the insurance companies and 5 per cent of securities companies.

The BoJ also announced that preparations were under way to handle interbank settlements manually on Monday, January 3.

The bank said system checks would be conducted on Sunday, January 2 to determine if the bank needed to switch to manual processes for the first business day of the millennium.

And, the bank said, it would compile a list of contacts at private sector financial institutions, government ministries and foreign central banks before year-end.

POTENTIAL MILITARY USE CHINA MAY OBJECT TO PROJECT

Dasa begins work on satellite for Taiwan

By Mure Dickie in Taipei and Uta Harnischfeger in Frankfurt

Germany's DaimlerChrysler Aerospace (Dasa) has begun building an earth observation satellite with potential military applications for sale to Taiwan, although the German government has yet to approve its export.

Officials in Taiwan insist the $80m satellite will be used for civil projects only, but its potential use for military surveillance is likely to raise diplomatic issues with China, which fiercely opposes all arms sales to its island rival.

Pressure is also growing within Taiwan for the deployment of better early warning and surveillence systems following reports of increased Chinese missile deployments against the island.

A Dasa spokesman said the company was optimistic that export approval for the satellite would be granted in the next four weeks, saying that Taiwan had said it would "primarily use the satellite for civil purposes".

Germany's Federal Export Office declined to comment on the deal but said all satellite exports to non-EU nations required special approval.

Construction of the Rocsat II satellite, which will be able to pick out objects on the ground with a width of two metres or more, had been started to ensure it was ready for launch as planned in late 2002, said David Chu, deputy director of Taiwan's National Space Programme Office.

Dasa would cover all costs if the export licence was refused and Taiwanese technicians were already working on the project in Germany, Mr Chu said.

He said the satellite's imaging resolution was too low for military use and that it would undertake oceanic and geographic observation and pioneering research into lightning that discharged out into space instead of toward the ground.

However, an aerospace industry official close to the project confirmed the Rocsat II had potential military applications, raising the prospect that its export could prompt opposition from Beijing.

China considers Taiwan a rebel province and sees arms sales to Taipei as threats to its cherished dream of national reunification.

Parris Chang, a Taiwanese opposition legislator and expert on military affairs, said satellites such as Rocsat II should be used to monitor the mainland instead of for irrelevant research.

"What's wrong with using it for military purposes? We are being threatened by China and we need early warning systems," he said. "We need the help of satellites."

Chinese military modernisation has focused the attention of many in Taiwan on the need to counter the mainland's growing missile battalions, prompting impassioned debate on possible involvement in a planned US-led theatre missile defence (TMD) system.

Even if used for surveillence, the Rocsat II would hardly fill the island's intelligence-gathering gap, particularly since its low orbit means its position relative to the ground changes constantly. Many analysts consider an expanded satellite programme essential to upgrade Taiwan's command and control systems.

China softens on currency pledge

By James Harding in Shanghai

China's commitment not to devalue its currency is not a "permanent pledge", a senior government economist was yesterday quoted as saying by an official newspaper.

"The policy decision not to devalue the renminbi is made according to the current situation," Wang Mengkui, director of the Development Research Centre of the State Council, China's cabinet, was quoted as saying. "It is not a permanent pledge."

Chinese leaders have repeatedly promised that they will not devalue the Chinese currency, a move that some fear could destabilise Asian economies and prompt another round of regional currency depreciations.

On his arrival in the US this week, Zhu Rongji, China's prime minister, made a point of reiterating the commitment to maintain Chinese currency stability. "I state again that the Chinese renminbi will not be devalued," Mr Zhu said.

The comments yesterday made in the official Economic Information Daily did not suggest Beijing has any plans for an exchange rate adjustment. But Mr Wang's qualification to the no-devaluation pledge underlines how Chinese economic policy advisers have begun to consider the conditions under which China could have to devalue.

"If great changes took place in the international economy, it would be unlikely China would not be affected," Mr Wang was quoted as saying. The newspaper did not elaborate.

Chinese officials have previously indicated that a sharp depreciation in the value of the Japanese yen would weigh heavily on Beijing's thinking, as a weaker Japanese currency would add to the problems facing China's exporters.

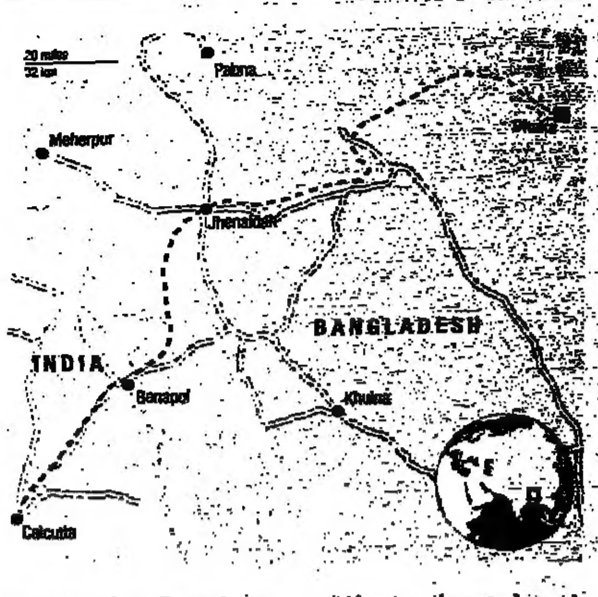
A government official said last month any decision to devalue would depend on whether China could maintain acceptable levels of economic growth and social stability.

In Los Angeles, Mr Zhu offered an upbeat forecast for the Chinese economy, suggesting that a rebound is already under way and forecasting gross domestic product growth this year will outstrip the 7.8 per cent achieved in 1998 as well as the 7 per cent target for 1999.

"China's economic performance this year will definitely be better than last year," Mr Zhu said.

Bus link presages new Bangladesh-India ties

By David Chazan in Dhaka



The first direct bus service from Bangladesh to India has made a trial run, carrying Bangladeshi officials and businessmen from Dhaka to Calcutta.

The launch of the passenger service, expected later this month, signals a new openness in India's attitude towards its smaller, poorer neighbour.

It has also raised hopes of easier travel for the many Indians and Bangladeshis with relatives living on both sides of the border, and better trade relations which improve the economic prospects of an impoverished corner of the subcontinent.

As the bus drove across the border from Bangladesh, it was greeted thousands of cheering Indians who lined the road for several miles in spite of oppressive heat and humidity.

A brass band played a Bengali nationalist song by the poet D.L. Roy.

"This bus service will facilitate travel and trade, and will be of great benefit to Bangladesh and India," said Azman Hossain Chowdhury, the chairman of the Bangladesh Road Transport Corporation and one of the passengers on the bus.

"We're hoping that it will mark the dawn of a new and more cordial relationship between our countries."

When the British left India and the subcontinent was partitioned in 1947, Bengal was divided into the Moslem majority state of East Pakistan, which later became Bangladesh, and the predominantly Hindu state of West Bengal in north-eastern India.

But for many Bengalis, their common language and culture form a bond that is stronger than the religious divide.

The links between the two Bengals remain close despite rivalry between West Bengalis, known colloquially as "Ghotis", and the "Bangals" of Bangladesh.

Many Ghotis claim to speak a purer form of Bengali than their Bangal cousins, and they consider Calcutta to be the home of Bengali culture.

But the border between Bangladesh and India was never closed as was the border between Pakistan and India.

Half a million Bangladeshis visit India each year.

Indian forces helped Bengali Moslems to win independence from Pakistan and found Bangladesh in 1971 after a bloody conflict triggered by Pakistan's attempts to force the Bengalis to abandon their language in favour of Urdu, the national language of Pakistan.

But until the inauguration of a direct bus service between Pakistan and India last month, mutual suspicion between the governments of Bangladesh and India had prevented a direct service between the two countries.

Instead, travellers were forced to change buses at the border, carrying their luggage from one border post to the other, often being delayed for hours before they could cross.

"With this new direct bus service, border formalities will be far easier," said A.K. Wakil Ahmed, the head of customs at the Benapol border post on the Bangladeshi side.

"About a thousand people cross this border every day, and there are usually long queues," he said.

But travellers who were stranded at the border while the much-publicised bus crossed into India were less enthusiastic.

Begum Nahar, standing at the roadside with her bags while her husband completed the many border formalities, said a direct bus service alone would not alleviate the pain of travelling between Bangladesh and India.

"At the moment it takes hours to fill out all the forms," she said. "We want less bureaucracy and speedier formalities."

India has been trying to convince Bangladeshis that it is adopting a friendlier attitude towards its smaller neighbours.

Sunil Dutt, the popular Indian film star, visited Dhaka last week and called for a new spirit of co-operation in South Asia.

But some Bangladeshis continue to doubt India's sincerity.

"When the bus reached Calcutta, there was no one from the central government to welcome us," said one passenger, a Bangladeshi who requested anonymity.

"What kind of signal does that give?"

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MEDITERRANEAN SUMMIT FORMER PARIAH REGIME MAY ATTEND FREE TRADE TALKS ☐ FLIGHTS RESUME AFTER SANCTIONS SUSPENDED

Italy champions Libya's rehabilitation

By James Blitz in Rome

Libya could take a first step towards re-entering the international community next week amid hopes in Rome that it will attend a summit of European Union and Mediterranean countries on free trade and security.

Following Tripoli's handover of two Libyans accused of the 1988 bombing of a Pan Am flight over Lockerbie, Scotland, the Italian government is pressing for Libyan officials to be admitted to a ministerial meeting in Stuttgart next Friday that will discuss the latest stages in the so-called "Barcelona process".

The EU-Mediterranean talks are aimed at setting up a regional free trade agreement by the end of the next decade. Libya's inclusion in these talks would be the latest indication of Italy's efforts to bring Tripoli into the international fold.

Earlier this week, Lamberto Dini, Italian foreign minister, flew to Libya for talks with the country's leader Col Muammer Gadaffi, just one day after the two Lockerbie suspects were flown to the Netherlands for trial. His visit was the first to Tripoli by a European official in seven years.

At the same time, the United Nations suspended the sanctions that have been imposed on Libya since 1992. The UN move led to the reopening yesterday of the first commercial flights from Libya to neighbouring countries in seven years.

According to Italian foreign ministry officials, the UN security council must decide within 90 days whether to end the sanctions completely. This, in turn, means that the US – as a security council member – must decide whether to retain its own sanctions.

Mr Dini said late on Tuesday night that he thought "there was desire in Washington to move to a normalisation of bilateral relations with Tripoli," and that "difficult issues regarding terrorism have now been overcome." However, some experts on the region believe the US will retain its sanctions all the same.

By striving to bring Libya into the world community, the Italian government is hoping that its companies will gain from trade with Tripoli, particularly in oil.

Libya has oil reserves of about 30bn barrels, about the same as the North Sea. Eni, based in Rome, produces about 16 per cent of Libya's oil and is seeking customers to back investment in new gas production from the Wafa field on Libya's coast and a pipeline under the sea

WORLD BANK'S GLOBAL DEVELOPMENT FINANCE REPORT

Aid to poor nations falls to 18-year low

By Robert Chote, Economics Editor

Net flows of overseas aid to developing countries have fallen to their lowest level in real terms since 1981, with little sign of a significant recovery in prospect, the World Bank said yesterday.

In its annual Global Development Finance Report, the Bank lamented the fact that aid flows were declining just as improvements in developing country policies were making them more effective.

"Several low income countries are making important advances in policy reform. Reallocating the current level of aid only to countries with good policies and large numbers of poor people could substantially increase the number of people who escape poverty," it said.

The Bank estimates that 2bn of the world's 2.7bn poor people live in 32 countries which have adopted a good policy environment in the 1990s, a precondition for aid flows to be helpful. Policies in sub-Saharan Africa and south Asia are better now than at any time in the previous quarter century.

Without aid there would be an additional 30m poor people in developing countries each year, based on a poverty line of $2 a day. If existing aid flows were allocated more efficiently, this could lift another 50m out of poverty each year.

Net concessional assistance to developing countries totalled $32.7bn last year, down a little on 1997 and a third since 1990. The Bank noted that this was only about a sixth of the sum pledged under rescue packages to Brazil, Indonesia, Korea, Russia and Thailand since 1997. Of the $190bn pledged in the rescue packages, $63bn has so far been disbursed.

In real terms net flows of official development assistance fell by 6 per cent to an 18-year low in 1997, the latest year for which data are available from the Organisation for Economic Co-operation and Development.

Only four countries met UN aid targets

But approximately half this decline was explained by the depreciation of most industrial country currencies against the US dollar. After taking this and the reclassification of Israel as a developed economy into account, the underlying decline in aid flows was 2 per cent.

The Bank noted that only Denmark, the Netherlands, Norway and Sweden devoted the 0.7 per cent of national income recommended by the United Nations to aid flows. The Group of Seven leading industrial countries pay a much smaller proportion of GDP in aid and they are responsible for much of the recent decline.

The outlook for a recovery in aid flows remains poor, the Bank believes. Only three countries – Ireland, Sweden and Britain – have announced increases in aid budgets for last year. But aid flows should also rise in the Netherlands, where there is a political agreement to keep them at 0.8 per cent.

Japan, the largest donor, announced a 10 per cent cut in aid payments in fiscal year 1998, although some of this decline has been restored in a supplementary budget. For industrial countries as a whole, aid flows may now have dropped below 0.2 per cent of GDP.

Pressure on government spending in industrial countries has been an important factor underlying falls in aid flows, but the Bank noted that the relationship was far from straightforward.

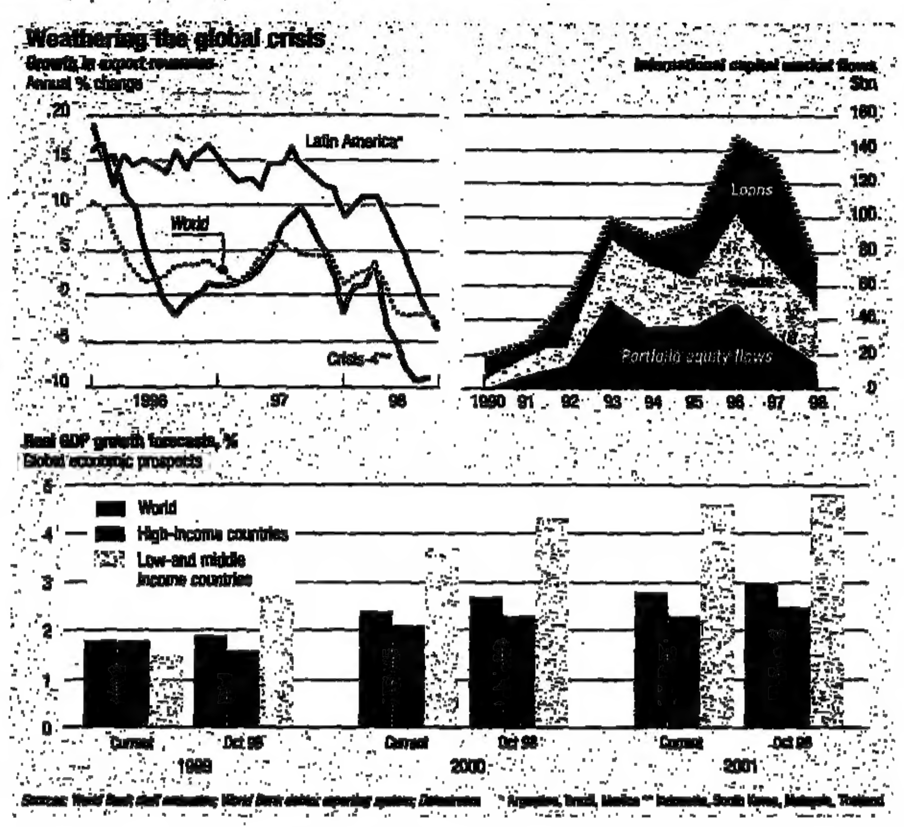
The US, Germany and Japan have all reduced aid as a share of GDP by around 0.07 percentage points between 1992-93 and 1996-97, but fiscal conditions differ widely between them. In the US aid has fallen victim to tighter fiscal policies and public scepticism about its effectiveness. It has been crowded out by the costs of unification in Germany and by measures to boost the domestic economy in Japan.

The UK recorded the smallest decline in aid as a share of GDP among the Group of Seven leading industrial countries between 1992 and 1997, the period of the last government. The incoming Labour government has agreed to raise aid as a share of GDP during its first term in office.

The Bank also warned that a greater share of aid spending was now being devoted to emergency relief required by wars and natural disasters, leaving less to be spent on long-term development objectives. A greater proportion of aid budgets was also being absorbed by administration costs.

The report also calculated that the total debt of developing countries had increased by about $150m last year to just under $2,500bn. Total grants to developing countries fell by $2.7bn last year to $23bn.

Among highly-indebted poor countries – those potentially eligible for extra debt relief under the joint initiative of the Bank and International Monetary Fund – outstanding long-term debt rose by $4.8bn last year to $169.1bn. The Bank warned that donors would have to provide more money to finance the initiative on its present terms, let alone on any more generous term.



Iraq talks start at Security Council

With scant signs of unity, the 15-member UN Security Council yesterday began discussions on its deadlocked policy on disarmament and sanctions in Iraq, Reuters reports from New York.

In an effort to break a political stalemate, the Council in early February set up three panels – on weapons, humanitarian issues and compensation for Kuwaiti war victims – all chaired by Celso Amorim, Brazil's UN ambassador.

Mr Amorim introduced the panel reports, distributed to members late last month. Initial closed-door Council discussions were scheduled for this week and two days next week, envoys said. But Mr Amorim predicted discussions "could take weeks if you are looking for a more long-term solution".

With the Iraqi economy deteriorating rapidly after nearly nine years of UN sanctions, France, Russia and China want relief as soon as possible while the US and Britain blame the misery on Saddam Hussein's refusal to relinquish weapons of mass destruction.

Peter Burleigh, the chief US delegate, said Washington was still "definitely" opposed to lifting sanctions, saying the panels made "it clear that Iraq has not disarmed", one requirement for lifting the sanctions.

The panel on disarmament concluded that most but not all of Iraq's dangerous weapons had been destroyed. The humanitarian panel suggested sanctions be eased and private investment be allowed in Baghdad's oil and other industries.

Missing from the discussion, however, is Iraq itself, which insists it has no more prohibited weapons and that all sanctions must be lifted immediately. There also is no sign Iraq is willing to co-operate with arms inspectors even if there were some relief from sanctions, imposed after Baghdad's 1990 invasion of Kuwait.

Move to establish bank in Nairobi

By Mark Turner in Nairobi

The G77 Chambers of Commerce, the organisation linking traders from the world's 132 poorest countries, has called for a development bank to be established in Nairobi within the next two years, offering preferential credits to developing country exporters.

Tariq Sayeed and Boney Katatumba, the organisation's outgoing and incoming chairmen, will present their plans before a G77 foreign ministerial meeting at New York in September, where they expect to receive final approval for the project.

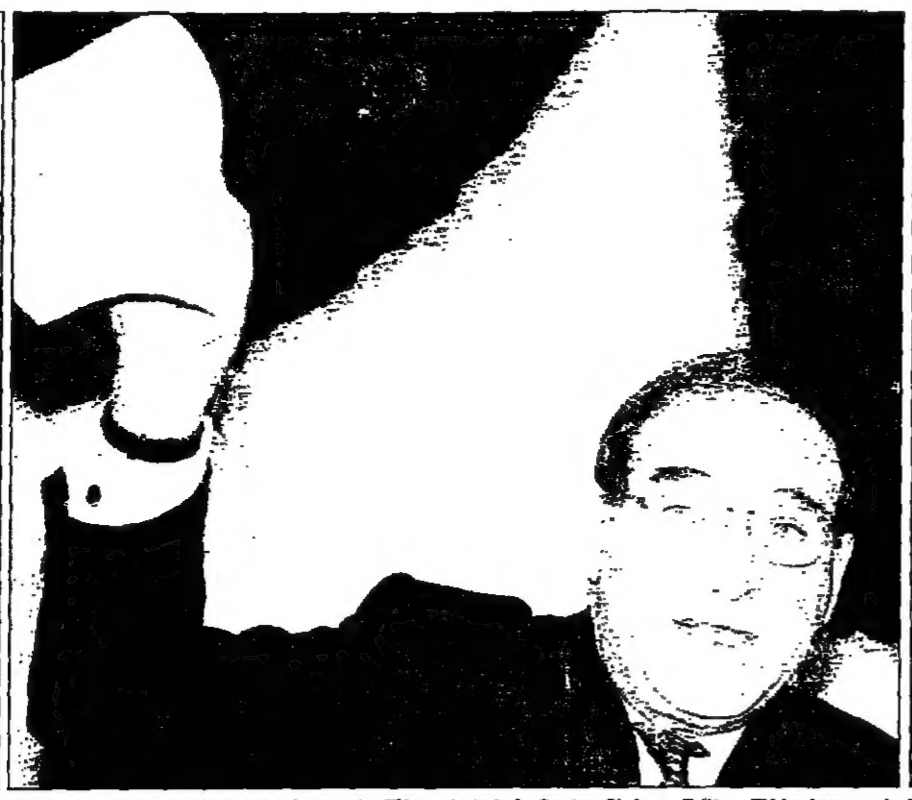
Four categories of investor will be called on to take up shares: 30 per cent for business institutions in G77 countries and China, 30 per cent for the Organisation for Economic Co-operation and Development and multinational institutions, 30 per cent for financial institutions in G77 countries and 10 per cent for G77 governments and China. The bank is aiming for an initial capital of $1bn.

"While there are financial institutions dealing with developing countries, the funds are not readily available to exporters," said Mr Sayeed, following a G77-CCI general assembly in Kampala.

"Our concept is to give exporters funding at a relatively low rate; we would give preference to those who export to other developing countries."

The bank was conceived in 1992, and a feasibility study – paid for by the Kenyan government – was recently completed.

Mr Sayeed says he already has considerable support from other development banks and hopes that the International Finance Corporation, the World Bank's lending arm, will take up 10 per cent of the shares.



Left: A woman markets bananas in St Lucia, one of the Caribbean producers the EU wants to help Centre: Sir Leon Brittan, EU trade commissioner and key player in the dispute, waves a piece of paper at a press conference on bananas Right: Packing bananas in Colombia, one of the Latin American countries affected by the EU import restrictions

BANANA DISPUTE UNCERTAINTY ABOUT EUROPEAN RESPONSE LEAVES BUSINESS COMMUNITY UNCERTAIN ABOUT SANCTIONS

European exporters confused by war of words

By Kevin Brown and Sathnam Sanghera in London, and David Owen in Paris

The European business community, already angered by the threat of US sanctions over the banana trade, was yesterday struggling to make sense of the latest war of words between Washington and Brussels.

As US officials claimed victory in the wake of an unpublished World Trade Organisation ruling on the banana dispute, it was unclear whether the European Union would back down or fight on against earlier adverse WTO rulings.

The uncertainty left European exporters which figured on the original list of goods selected by the US for 100 per cent penal tariffs unsure whether their products would be hit by sanctions or not.

"This is a very difficult situation for European businesses because they have no certainty about what is going to happen," said Monique Julien, director of external affairs for Unice, the main European business organisation.

"We need to study this report, but it is not clear that this process is over," she said. "Our main concern is to avoid sanctions on companies that would suffer because of an issue they are not directly concerned with."

Erick Boutry, managing director of France's Société des Caves de Roquefort, said his reaction if sanctions were applied would be "incomprehension".

He said there were no US producers of feta cheese made from sheep's milk, so the company's product did not compete with US manufacturers. Louis Vuitton, the French leather goods manufacturer, cannot understand why it had been targeted, since it has no connection with the banana trade.

Some businesses said they had already lost revenue because the threat of sanctions had prompted US buyers to redirect orders to other countries. Business contacts have also been disrupted, posing problems for the future.

"Our members have been very badly affected," said Isabel Welch, of the UK's Giftware Association. "The threat of the sanctions has resulted in Americans cancelling orders with EU suppliers and our members will now have to begin the process of re-establishing these contacts."

Ian Barnet, managing director of Shearer Candles in Glasgow, which has a turnover of £1.5m ($2.4m) said his company had lost at least £50,000 since mid January. Mr Barnet said he was "absolutely steamed up about the behaviour of our politicians and EU administration. It has taken them five years to sort it out and some permanent damage has been done to our trade with the US."

To complicate the issue, the US said it would take a few days to refine its orginal list of imports – worth $520m but revised down to $362m last month – because the WTO disputes panel said it was entitled to impose only $191m of tariffs.

That means that if the sanctions go ahead, they will be even more arbitrary, because some companies will be excluded while others will be hit.

Businesses and European governments continued to urge the US not to impose sanctions against companies with no connection with the banana trade, arguing that penalties against innocent bystanders were morally unjustifiable.

Editorial comment, Page 17

How the dispute unfolded

1993
May 19: GATT panel finds against restrictions in EU states ("Banana I").
EU blocks panel report from being adopted by Gatt Council.
July 1: EU implements single market banana Regulation 404; claims it meets Gatt obligations.

1994
Jan 18: Gatt panel finds against EU's new Regulation 404 ("Banana II").
Feb 7: EU blocks "Banana II" panel report from being adopted by Gatt Council.

1996
US, Guatemala, Honduras, Mexico and Ecuador (G5) bring formal WTO case. EU insists regime meets WTO rules.
The G5 hold formal WTO consultations with EU. EU refuses to change regime.
Sept: EU rebuffs US efforts to discuss changes, stating no change possible during WTO case.

1997
May 22: WTO panel finds against EU regime (Banana III).
June 20: US Trade Representative Charlene Barshefsky asks Sir leon Brittan for consultations.
July 11: EU appeals against 19 findings in the WTO panel report.
July 23: US proposes possible solutions to EU. Brussels says it is too early to discuss them.
Sept 9: WTO appeals body upholds panel findings of EU violations.
Sept 25: WTO Dispute Settlement Body (DSB) adopts panel and appeals body reports. EU condemns WTO reports and ignores G5 request for negotiations.
1998
Jan 8: WTO arbitrator gives EU until January 1, 1999 to comply with WTO rulings.
June 26: European Agriculture Council adopts modifications to banana measures, saying they meet WTO rules.

1998
Feb 5: EU rebuffs G6 (G5 plus Panama) concerns at WTO about draft EU banana plan.
Feb 12: EU rebuffs US detailed legal concerns about a new banana plan in Brussels consultations.
Mar 25: G6 at DSB call for negotiations. EU complains G6 statement is premature.
May 20: US requests changes to EU plan at talks in Geneva. EU rejects request.
June 19: Barshefsky writes to EU member states stating objections to Brussels' proposed new banana plan
June 26: European Agriculture Council adopts Commission's banana plan.
July 7: Barshefsky asks Brittan to reconvene WTO panel.
July 30: Brittan replies to Barshefsky that the EU sees "no reason" to reconvene panel
Sept 25: G6 requests EU to accept WTO panel
Oct 21: EU does not accept panel
Dec 21: US issues list of European products subject to increased US tariffs.

1999
Jan: US seeks WTO backing for sanctions. WTO formula fails to bring breakthrough.
Feb: Brussels seeks WTO ruling on US trade sanctions threat.
Mar: US begins sanctions. Trade war escalates as EU fights US sanctions move.
Mar 26: WTO calls meeting over banana row

US REACTION OFFICIALS HOPE EU WILL DEMONSTRATE WILLINGNESS TO RESPECT RULES OF WORLD TRADE

Outcome seen as opportunity for reform

By Nancy Dunne in Washington

Germany, a land of banana lovers, demanded and received a special dispensation from the European Community to be allowed to import the fruit duty-free. But it gave up that requirement under the terms of the single market in 1992. That was when a single tariff and licensing regime was agreed, and the US-European Union banana duel began.

This week, when the EU lost a World Trade Organisation banana ruling for the fifth time in six years, US officials were still hoping the EU would truly reform the regime and that US sanctions – to be announced in a few days – would be lifted.

"The EU has now yet another opportunity to demonstrate that it is willing to respect the rules of world trade and thereby bolster confidence in the WTO as a forum for redressing trade barriers," said Charlene Barshefsky, US trade representative.

"If the EU does not seize this opportunity, its commitment to the multilateral trading system must be seriously questioned."

She had nothing to say about the US loss implicit in the ruling, when the arbitration panel also ruled that the US had exaggerated the costs of the regime to the US economy. It gave permission for only $191.4m in punitive tariffs instead of the $520m the US had claimed. But US officials said they had won on points of law and set a precedent for how sanctions could be imposed.

Sir Leon Brittan, the EU trade commissioner, stressed that the US would be formally asked to lower its request for compensation – a point the US had already accepted. He said the EU would continue its challenge to Section 301 of US trade law, which is used to bring cases to the WTO.

From the start, the EU contention that the regime was implemented for the benefit of poor former colonies was viewed sceptically in the US. Until that time France, Britain and Spain had adopted policies favouring bananas from their former colonies, while Germany preferred the bigger and cheaper bananas from Latin America.

"This is about the political power of domestic interests, who have sweetheart deals with their suppliers in the Caribbean," said Michael Samuels, a former US trade official, now a consultant. He said even the licensing regime had benefited importers in France, Spain, Britain and Portugalbecause they could sell off licences they were not using.

"This crying over the concerns of the poor Caribbean countries is a smokescreen," he insisted. So was the insistence by the EU that the US only brought the case at the behest of Carl Lindner of Chiquita Brands International, who gave donations to both parties. These might have bought him support on Capitol Hill and in the administration, he said, but it had cut no ice in Geneva, where the EU's position has been consistently rejected.

"Once again this confirms that the US was right all along, trying to get the EU to make changes consistent with its obligations," said Mr Samuels. "Frankly, there were people in the Commission who knew what they did was wrong and this supports them as well."

'This crying over poor Caribbean countries' concerns is a smokescreen'

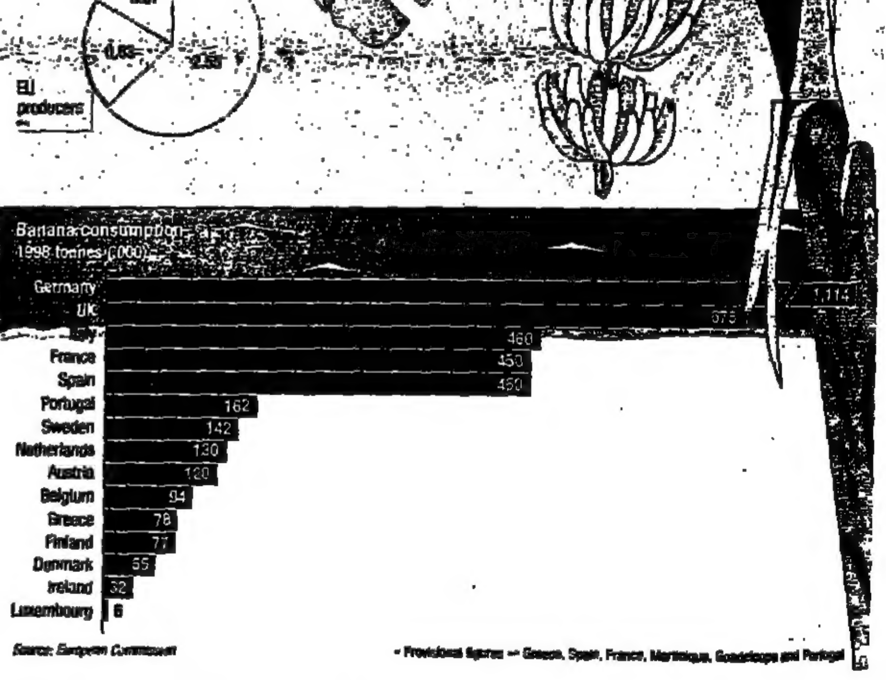
Mr Samuels was the first to advise Chiquita Brands with its sprawling interests in central America, to bring a complaint to the world trade body, then the General Agreement on Tariffs and Trade. The EU persisted in delaying and appealing and even when it said it would change its regime, the alterations were meaningless, according to US trade officials.

When the US said it would impose sanctions, even if it was before they were authorised by a WTO panel, the EU portrayed the US as the outlaw of the system, trade officials said. The US delayed collection of duties until the final ruling by the arbitration panel, but the duties would be backdated until March 3, the deadline for WTO action.

According to lawyers who have seen the still-confidential WTO ruling by the arbitration panel, the report explicitly said the US was correct in its interpretation of WTO rules, that a protracted litigation on damages was not necessary before sanctions could be imposed. The ruling will also enable the US administration to tell WTO critics in Congress that appeals panels will produce real changes within a reasonable length of time.

"It shows the WTO will not allow member countries to skirt their agricultural trade obligations by engaging in endless litigation," said Senator Sam Brownback, a Kansas Republican.

The Senator said he saw "positive implications" for agricultural trade disputes now lined up for EU action. These include hormone treated beef, genetically modified organisms and canned peaches.



Source: European Commission

* Provisional figures ** Greece, Spain, France, Martinique, Guadeloupe and Portugal

TECHNOLOGY US GROUPS TAKE ADVANTAGE OF CHEAPER LABOUR COSTS ABROAD

More software companies look overseas

By Roger Taylor in San Francisco

The speed at which US technology companies are moving software operations overseas to take advantage of cheaper labour is highlighted by a new report from Meta Group, the IT consultancy.

The report shows a 40 per cent rise in the number of US companies establishing operations overseas. More than one in four of the 476 companies covered by the survey had done so.

Howard Rubin, a research fellow at Meta Group, said the increase in the pace of overseas expansion reflected the higher productivity of non-US information technology professionals.

The US is the second most expensive market for IT skills after Switzerland. The report found that for every one US programmer, a company could employ 1.3 British programmers, 1.6 Canadians, five Mexicans or 6.7 Indians.

Furthermore, the report found that non-US programmers were more productive than their US counterparts, producing 16.7 thousand lines of code for every 7.7 thousand from a US programmer.

Mr Rubin said the discrepancy was due in part because most of the more innovative software development took place in the US.

However, he warned that the US technology industry was becoming complacent because of high demand for its services and shortage of skilled labour.

"The shortfall of talent makes technology professionals feel secure. But there are great opportunities for US companies to get better value for their money outside the US in India, Ireland and the Caribbean," said Mr Rubin.

Overall, the study found that US software was of higher quality than elsewhere in the world, with defect rates of 1.64 faults per thousand lines of code compared to 3.85 faults for non-US software.

However, that gap was rapidly narrowing, with a 26 per cent improvement in the quality of non-US software compared with a 3 per cent improvement in US software.

Also, non-US companies appeared to be getting greater returns on their information technology investment.

Although they invested, on average, 25 per cent less than US companies in information technology, income and revenue growth associated with these IT investments did not lag by the same percentage.

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NUCLEAR SECRETS REVIEW OF US SECURITY PROCEDURES AS RELEASE OF STUDY IS SET AFTER CHINESE PM'S VISIT

Congress report on N-theft delayed

By Tony Walker and Stephen Fidler in Washington

Release of a sensitive congressional report outlining Chinese attempts to steal US nuclear and other military secrets has been delayed until after the nine-day visit to the US of Zhu Rongji, China's premier, which ends late next week.

But the Clinton administration is continuing to step up efforts to stop the theft of sensitive information.

Bill Richardson, energy secretary, has ordered a halt to the use of computers at three US nuclear weapons laboratories while a review of security procedures is undertaken to guard against the leaking of data.

The New York Times reported that Mr Richardson ordered the suspension last Friday of the use of computer networks at laboratories in California and New Mexico.

There are fears that these networks are vulnerable to espionage.

A spokesman for Chris Cox, the Californian Republican who is chairman of the committee on national security and military/commercial concerns, said the report would be released before the end of April. Mr Cox had been aiming for publication in March.

Committee staff and the White House have been haggling over the extent to which material in the sensitive 700-page document should be declassified for publication.

The select committee was formed after allegations of improper fundraising for the Democratic party's 1996 presidential campaign involving Chinese contributions.

Mr Richardson said he would not allow the computers at the Los Alamos, Sandia and Lawrence-Livermore national laboratories, which are used for sophisticated weapons imaging and testing, to be re-activated until he was satisfied security procedures were adequate.

"Our computer security has been lax, and I want to strengthen it," he said. "I want to demonstrate to Congress and the American people we are serious about upgrading computer security at the labs, and there will never be another lapse."

The administration has been under intense criticism over revelations that a scientist at the Lawrence-Livermore laboratory in California may have passed secrets about the miniaturisation of nuclear warheads to China. Critics charged that Washington had neglected warnings about lax security at its weapons laboratories.

The Cox committee report, which includes material embarrassing to the White House, contains some 37 recommendations on tightening security both at weapons laboratories and also covering transfer of technology to China which may have a dual civilian and military use.

The committee shied away from investigating illegal campaign contributions to the Democratic party since these investigations are the subject of legal action.

US central bankers ready to break with tradition

By Gerard Baker in Washington

Economists have fretted for some time that the Federal Reserve may have dropped the monetary policy ball, allowing the US economy to grow too fast for too long and stoking up an inevitable inflationary explosion in the near future.

Never mind that inflation has actually declined in the last three years, even as the US has enjoyed record growth and low unemployment.

The Fed's critics say this has been the result of a series of lucky coincidences – a strong dollar, lower health insurance costs and falling computer prices among other things – that will quickly pass.

But inside the Fed there is little indication of complacency. Instead, according to insiders, the world's most powerful central bankers are now engaged in a far-reaching examination of the very assumptions on which monetary policy has traditionally been based.

In an interview with the Financial Times this week, Alice Rivlin, the central bank's vice-chair, suggested that traditional models that say wage and price inflation inevitably follow rapid growth and low unemployment might need to be rebuilt.

Companies' behaviour might have changed so much that simply relying on macro-economic statistics and historical relationships was no longer enough.

"I don't think we have a lot of clues," she said. Figuring out what was happening would require "a lot more attention to what is really going on in businesses and labour markets. What are businesses of all sizes really doing in the face of these tight labour markets?"

'I don't think we have a lot of clues. . . What are businesses of all sizes really doing in the face of these tight labour markets?'

The answer, she and many other influential policymakers think, might be much tougher global competition that has forced companies to invest more in capital and in workers. This view was widespread at the regular meeting of the Fed's policy-setting open market committee in February.

"The conjuncture over an extended period of strong economic growth, very low rates of unemployment, and the absence of any build-up of inflation could not be explained in terms of normal historical relationships," the minutes said, but owed at least in part to "more lasting changes in economic relationships".

Ms Rivlin believes these changes might stem from the important economic shifts of the last decade – corporate restructuring in the 1980s and 1990s, the confluence of rapidly modernising telecommunications and information technology systems, and the lower inflationary expectations that have taken firm hold in recent years, stemming at least in part from sound policy.

Alan Greenspan, Fed chairman, has also hinted that he believes something really important has changed. This is not to say that the Fed has become a haven for those who believe the US has shifted to a "new paradigm" of faster sustainable growth. The Fed's staff economists continue to talk in terms of traditional estimates of the potential rate of growth of the economy – around 2.5 per cent.

No one at the Fed wants to be heard saying the changes are permanent. Even some of the most fervent believers in the idea of radical change talk about it in historical terms – these are the changes that have occurred. They might, of course, not last.

And they all agree that at some point inflation will pick up if rapid growth continues.

But in an example of how the new US economy may have changed the way the central bank makes policy, many feel that they can happily afford to wait until there are much clearer signs of inflation before raising interest rates.

In the past they might have raised rates in any case, just as insurance against inflation. Now, in an environment of stable prices, many think no real harm will result if policy becomes a little more reactive and a little less pre-emptive.

Chávez test for Congress

By Raymond Colitt in Caracas

Chávez: challenged Congress

Hugo Chávez, Venezuelan president, yesterday returned economic and state reform legislation to Congress, demanding that the laws be redrawn. The move raises the stakes in the repeated clashes between the two.

The government's legislative proposal, approved in part by Congress less than a fortnight ago, was designed to help finance a budget deficit estimated at 9 per cent of gross domestic product and to overhaul a largely crumbling state apparatus.

Yet Mr Chávez said Congress had undermined his proposals to eliminate public offices, renegotiate the country's foreign debt, and raise taxes.

"We don't want them to put us into a straitjacket. We want them to reconsider," he admonished deputies. The tax legislation approved by Congress actually worsened public finances, the president said, suggesting that congressmen were defending "hidden interests".

The president challenged Congress by reminding it of his powers to declare a state of emergency if his reform efforts continued to be blocked.

He also renewed threats of moving towards the dissolution of the legislature. "If Congress doesn't change its attitude of sabotage, the constituent assembly by obligation will have to dissolve Congress and I'll be the first to vote in favour of that," he said. Following a referendum on April 25, a popularly elected constituent assembly is scheduled to draw up a new constitution by early next year.

Reactions in Congress ranged from a willingness to reconsider certain government proposals to accusations of totalitarianism. "He does not understand the workings of democracy, he wants a blank cheque," said one opposition congressman.

NEWS DIGEST

OPPOSITION TO CONCEALED WEAPONS

Setback for gun lobby in Missouri referendum

The US gun lobby pledged to fight on yesterday after losing a high-profile referendum in Missouri which would have legalised the carrying of concealed weapons by popular demand for the first time. With virtually all votes counted, about 52 per cent of the state electorate were opposed to the measure – known as proposition B – and about 48 per cent in favour. About 1.25m people voted, little more than a third of those eligible but still a record for a local April poll in the state.

Legislatures in more than 40 states have already passed measures permitting the carrying of concealed weapons. But had Missourians backed proposition B it would have been the first time that carrying concealed firearms had been authorised by popular demand. **Nikki Tait, Chicago**

US TOBACCO

Industry suffers legal blows

The US tobacco industry has been dealt two further legal blows after a California judge ruled that Philip Morris would have to pay \$25m of a \$51.5m jury award – far more than analysts had expected – and the Justice Department signalled it intended to press ahead with a federal lawsuit.

Analysts had thought that the landmark punitive damages award, delivered by a Californian jury two months ago and reduced late on Tuesday, would be cut to less than \$5m. Martin Feldman, tobacco analyst at Salomon Smith Barney, said: "This is the first time, albeit in a lower court, that an officer of the legal system has blessed such a large award against the industry."

Meanwhile, David Ogden, the acting assistant attorney general for the Justice Department's civil division, said that the government had entered into an agreement with Robins, Kaplan, Miller and Ciresi – which represented the state of Minnesota in its lawsuit against the industry last year – to work on the proposed case through to the end of June.

The law firm has a reputation for unrivalled expertise in tobacco litigation. **Andrew Edgecliffe-Johnson, New York and Mark Suzman, Washington**

MEXICAN ARREST CALL

Former governor sought

The Mexican attorney-general's office has ordered the capture of Mario Villanueva, the former state governor who fled his home state of Quintana Roo, on charges of organised crime. Mexican authorities have requested the help of Interpol in locating Mr Villanueva, subject of a high-profile drug investigation centred on the Yucatan peninsula. **Andrea Mandel-Campbell, Mexico City**

On the web today
● Reinvigorated Fujimori reluctant to show hand ● NY taxi cabs try to become ideal vehicles for advertisers ● Setback for Delta III ● Clinton acts over wage gap
http://www.ft.com/americas

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SCOTLAND J.P. MORGAN AND MSDW SET TO CREATE 1,300 JOBS

US banks planning big investments

FT Reporters
in Edinburgh and London

J.P. Morgan, the US investment bank, is to open a software engineering centre in Scotland to develop applications for its trading, fund management and banking operations.

The £7.3m ($11m) centre will be located in the centre of Glasgow, and will create up to 300 jobs.

Mark Coughlan, chief information officer for J.P. Morgan in Europe, said the bank had chosen Scotland because it had a mature IT infrastructure and a rich supply of technology professionals.

Separately, Morgan Stanley Dean Witter, another US investment banking group, is today expected to announce the establishment of a call centre for its Discover credit card operation in central Scotland, creating up to 1,000 jobs. MSDW refused to comment yesterday, but the group has recently signalled its intention to expand the Discover card from the US. Discover was originally launched in the US by the Sears, Roebuck retailing group and has grown rapidly in its home market under MSDW.

The announcements come in the midst of the campaign for the first elections to the new Scottish parliament next month. The governing Labour party will claim today that Scotland must remain part of the UK to benefit from big inward investments.

The Scottish National party will today be accused of dishonesty when it unveils an election manifesto that fails to set out a fully costed reform programme for an independent Scotland. The SNP, which is challenging Labour for control of the Scottish parliament, wants to fight the May 6 election on its policies for a regional administration because of a calculation that Scots will vote for independence only in the medium to long-term.

The SNP leadership privately recognises the party is vulnerable when explaining its fiscal and monetary policies for independence. Gordon Brown, the chancellor of the exchequer, yesterday claimed the SNP wanted to hide its plan for "an expensive and messy divorce".

In a keynote speech in Glasgow he said: "Instead of Labour's virtuous circle of investment, jobs and revenues and better public services, we would be threatened with a vicious circle under the SNP of tax rises, lost jobs, lost revenues and declining services."

Meanwhile, a senior Scottish businessman yesterday attacked politicians for being obsessed with increasing taxes and spending more on public services instead of trying to improve the performance of existing services.

Ewan Brown, a director of Noble Grossart, a merchant bank, and chairman of Lloyds TSB Scotland, said a 5 per cent efficiency gain in the public sector on Scotland would yield £750m. This was more than would be raised by a 3p increase in income tax in Scotland, the so-called tartan tax.

Republicans' rhetoric leaves all parties confused

The formula on terrorist arms appears to be unravelling. **John Murray Brown** reports

The annual commemoration of the 1916 Easter rebellion against British rule in Ireland remains a key date in the republican calendar. The occasion is not usually one for Sinn Féin, the political wing of the Irish Republican Army, to sound conciliatory, and the tone of last weekend's rhetoric was unsurprising.

Nonetheless, it will be of some worry to the British and Irish governments that the Sinn Féin leadership appears to have denounced so categorically last week's compromise proposals on ending the impasse over terrorist arms.

Government officials are quick to point out the real intentions of the republican leadership are notoriously hard to read. In the run-up to the 1994 IRA ceasefire, there were a number of hardline statements suggesting no progress was likely.

The governmnents believe the formula they have outlined allows both sides to save face – paving the way for Sinn Féin to take its seats in government while the Ulster Unionists can say the IRA has made a start to decommission its arms.

But if last weekend's graveside orations represent the considered view of the Sinn Féin leadership then the chances of making progress when the parties reconvene on Tuesday look slim. There is little question of grassroots anger at the declaration, which calls on the IRA – and its pro-British rivals – to "put some arms beyond use" as part of a wider act of collective remembrance for all the victims of the Troubles.

Even moderates appear confused, arguing that the governments – particularly the Irish – have conspired with the unionists to rewrite last year's multi-party peace accord. "I have been over the Good Friday agreement in detail, underlining bits, putting other bits in brackets, and I cannot find anything that says the IRA has to decommission," says John, a retired Derry bookmaker and supporter of the nationalist Social Democratic and Labour party.

But Niall O'Dowd, publisher of New York's Irish Voice and a close friend of Gerry Adams, the Sinn Féin president, yesterday accused the two governments of "a collective failure to comprehend the psychology of the republican movement".

Republican sympathisers point to the almost theological attachment of the IRA to what is called "Ireland's physical force tradition", which Mr Adams and the leadership are trying to move away from.


Senior republican Brian Keenan: IRA has 'no obligation to disarm'

Like protestant Orangemen and their stubborn insistence on marching through Catholic areas, republicans cite tradition as one reason why IRA guns will not be handed in. It has never happened before, they say, pointing out that most of the parties in the Irish parliament had private armies at one time but did not have to surrender.

With the onset of the marching season, when tensions increase, the IRA would be vulnerable to charges that it had left its community defenceless in the face of continuing attacks on Catholics by loyalist extremists.

Language is a perpetual source of disagreement in Northern Ireland, or the North as moderate nationalists call it, and the six-county statelet as republicans prefer. And many republicans say it is hard to reconcile how decommissioning can at one and the same time be "voluntary" and "an obligation," as the declaration suggests.

But there is also a certain posturing in the republican position. According to Brian Keenan, a Belfast republican who is believed by security officials to be a senior member of the IRA's seven-strong Army Council, the IRA did not sign up to the Good Friday agreement and therefore has no obligation to disarm.

But the two governments, and every other party on the island, north and south, has long maintained that Sinn Féin and the IRA are inextricably linked.

Indeed Sinn Féin implicitly acknowledges as much in accepting that without an IRA ceasefire – or all Sinn Féin's electoral mandate – its officials would not have been allowed into the talks process, let alone into the new government.

Sinn Féin firm on early arms handover

Martin McGuinness, Sinn Féin's chief negotiator, yesterday ruled out any disarmament by the Irish Republican Army before a power sharing executive was set up in the new Northern Ireland assembly.

"The history of republicanism and the demeanour of republicanism from time immemorial clearly shows that they are not going to bend the knee to the demands of elements of the British military establishment, or unionism," he told BBC radio in Northern Ireland.

If the British and Irish governments had changed their view from the Good Friday agreement of April 1998 – which made it clear decommissioning was not a precondition for entry to an – "then we are all in very serious difficulty".

Mr McGuinness said Sinn Féin, the political wing of the IRA, would join talks next week to try to find a resolution. But he added: "I am working on the basis that there is no prospect whatsoever for the IRA to decommission anything as a precondition to Sinn Féin's participation in an executive."

NEWS DIGEST

POWER STATION SCHEME

GE and BP Amoco chosen for $480m Welsh scheme

The government was yesterday accused of tearing up its energy policy to win votes in the May elections to the Welsh assembly by giving the go-ahead for a £300m ($483m) gas-fired power station scheme in south-west Wales. The joint developers are GE of the US and BP Amoco. The energy park claims to be the first in the world to offer companies on-site power generation directly supplied at 30 per cent off the normal price.

Bob Nardelli, president of GE Power, said the highlight of the project would be its new fuel efficient H-system gas turbine, which the company will be hoping to win further orders for. "We are proposing not just another gas-fired plant but the system that will set standards around the world for performance efficiency and energy control and this site will serve as a show-case for the world," he said. The opposition Conservative party said the government had "blown a hole" in its controversial strategy of severely restricting consents for new gas-fired power stations in a bid to protect the coal industry. The government said the project was exempt from the moratorium because it was much less environmentally damaging and would create many jobs. **Juliette Jowit, Swansea**

INTERNET

Satellite system launched

Easynet, an internet service provider with subscribers in Germany France and the UK, has launched what it claims is the first commercial DVB (digital video broadcasting) satellite service aimed at consumers that delivers fast internet access in the UK for about £50 ($80.33) a month plus value added tax. Easynet's service, EasySat, uses British Telecommunication's broadcast services facilities and Eutelsat satellites to provide internet access and has been launched after a year of trials.

Brian Mulligan, Easynet's managing director, said download speeds for the service should be "in excess of those currently available from ISDN lines. This is the first time that internet users can receive web content via satellite for a fixed monthly subscription". **Paul Taylor, London**

DIGITAL TELEVISION

$800 sets to go on sale

On Digital, the group owned by two terrestrial television companies, will today announce that the first mass-market digital television sets are to go on sale at about £500 ($805). On Digital, which launched 30 digital terrestrial channels last November, will announce that Bush is to start producing the sets. It will also announce how many subscribers it has signed up.

Until now, On Digital customers have had to buy a £200 box which sits on an ordinary television set in order to unscramble the digital signals. The Bush integrated digital TV sets, however, are likely to encourage people to subscribe to On Digital as they do not require an additional piece of equipment. Some manufacturers have started selling IDTV sets, but the expense has so far deterred consumers. The sets cost at least £800 in the UK, and can go on sale at up to £1200. Thousands of the Bush sets are to go on sale in the summer. **Cathy Newman, London**

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VEHICLE REGISTRATIONS FIRST DATE CHANGE RECORDS SUCCESS

Sales of new cars up sharply in March

By John Griffiths in London

Sales of new cars rose sharply last month, the first March in which the annual licence plate change has taken place. Until last year, the change took place in August; it will now happen in March and September in an effort to make sales more consistent.

Statistics to be published today will show that car registrations rose in March to at least 360,000 – over half as much again as in March last year – to provide a clear indication that the new twice-yearly registration plate letter change is poised for success.

Much of the car industry and its dealers will also be celebrating the results of this year's JD Power/Top Gear car customer satisfaction study, also being published today, which for the first time detects a substantial and widespread rise in service and quality levels among 31 car makes.

The JD Power study, which originated in the US, is taken with considerable seriousness by the industry because of the substantial influence it is believed to exert over buying patterns.

Today's statistics from the Society of Motor Manufacturers and Traders will show that the sales boom caused by introduction of the "T" plate on March 1 had a dramatic effect, lifting total new car demand in the first quarter to about 2 per cent ahead of the 566,829 registrations record in the first three months of last year.

The March rise followed the virtual collapse of the new car market in January and February, when registrations were little more than half those of the comparable 1998 period. The industry's contention that the slump reflected buyers waiting for the "T" plate, rather than fading consumer confidence, appears to have been amply vindicated.

Industry executives now expect a similar pattern to be repeated during July, August and September, as a result of the "T" plate being succeeded by the "V" plate on September 1.

The new system is hoped by car makers, importers and dealers to replace the single traditional August sales bulge with two smaller and more manageable peaks. In previous Augusts, sales typically have reached more than 500,000 units, swamping dealers with cars and making their preparation for sale highly problematical.

The JD Power study shows that almost half the brands surveyed achieved their highest scores since the study began, with European makes among the biggest improvers. The biggest improvement was made by Ford's Jaguar offshoot, whose 19-point rise in the index took it to second place behind Subaru in the overall level of satisfaction ranked by the index, which is compiled from a matrix of 36 questions asked of car owners.

The questions cover a range of criteria, from service provided by dealers to fundamental car quality. Skoda, now part of the Volkswagen group, ranked third.

Many routes still open to investors in railways

Privatisation should not discourage those looking for a slice of the UK network, says **Sathnam Sanghera**

Although the process of privatising Britain's rail network officially ended more than two years ago, opportunities to invest in the UK's railways continue to arise.

There are several different avenues available – investment in rolling stock, tendering for national train operating franchises when they come up for renewal, and applying for involvement in the imminent partial privatisation of the London Underground rail network.

Although the last of the 25 franchises that allow train companies to operate on the UK's railways only began in March 1997, the government will begin the process of renewing franchises as soon as 2003. New companies will then have a chance to enter the privatised rail market, which is to receive a government subsidy of £1.32bn ($2.12bn) next year.

But during the next two years, it is the proposed partial privatisation of the London Underground which will take centre stage for corporate investors looking for a slice of the UK's rail network. Companies which have already expressed an interest in getting involved include Balfour Beatty, Serco, Kvaerner and Bechtel.

John Prescott, deputy premier (second left), yesterday with (from left) Sir Alastair Morton, "shadow" strategic rail authority chairman; Tom Winsor, rail regulator; and Mike Grant, new franchise chief PA

Official invitations to tender for involvement in the partial privatisation are expected in the last quarter of this year. A further five months will be allowed for bids. Under the proposed scheme, companies will bid for three separate concessions to manage sections of the underground's track, signalling and stations on leases of up to 30 years. Train services will stay in government hands.

"The Underground is a prestigious system and this will be one of the largest public-private partnerships in Europe over the next decade," said Tony Poulter of PriceWaterhouseCoopers, financial advisers to the project.

"The rail sector is a growth market, and we think many people will see these contracts as ones they really need to be involved in if they want to be serious players in the world of transport infrastructure."

On a national level, the network-wide investment in new trains has been the area of highest recent activity. Orders placed since the start of privatisation stand at more than £1.5bn. Altogether, this will release about 1,700 new vehicles on to the network over the next three years, with another 300, worth £500m, to follow by 2006.

In February, the Virgin Rail Group, which runs two 15-year franchises, signed a £1.25bn order for the building and maintenance of a new fleet of 53 state-of-the-art tilting trains. The order went to Alstom, the Anglo-French rolling stock manufacturer, working with Fiat Ferroviaria of Italy.

Thameslink, another train operating company, last week put forward plans to order 350 new trains, costing £1.4bn, in return for an extension of its seven-year franchise.

But the offer of such investment is no guarantee that Thameslink will automatically have its franchise extended. Last year, an offer from Connex Rail, the French-owned train operator, to invest £385m in new trains and other improvements, in return for the extension of its seven-year franchise, was rejected because it provided insufficient value for money compared with the probable market value of the franchise were it to be offered on competitive tender at expiry in 2003.

The move was typical of the Labour government's tough stance towards rail companies. Yesterday, it named Mike Grant – a former financial controller at Eurotunnel, operator of the Channel tunnel between England and France – as the new franchising director, with the hope that he will improve standards.

The government is reviewing how franchises might be re-negotiated and awarded in future. Together with next year's 14 per cent fall in government subsidy, after this year's 16 per cent decline, it looks as if it may become more difficult for companies in the rail market.

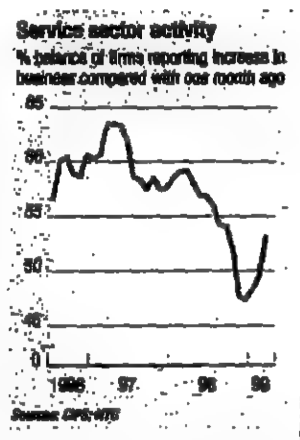
A spokesman for Save Our Railways, a pressure group which is critical of rail privatisation, said: "Regulatory obligations have not been very tight and [investments from outside the UK] have generated enormous returns. But the free ride is coming to an end."

Economic cheer lessens chances of cut in rate

By Christopher Adams, Economics Staff

Fresh evidence that the UK economy is poised for recovery has reduced the chances of an interest rate cut today.

The latest monthly survey by the Chartered Institute of Purchasing and Supply has shown a surprise rebound in service sector output last month, suggesting that recent monetary easing is underpinning activity.



Renewed strength in the housing market and a last-minute rush for personal equity plans helped lift demand for financial services in March. The institute's index of overall service sector activity rose from a seasonally adjusted 49.5 to 53, the first time it has climbed above the break-even level, signalling expansion, since September.

The Bank of England, the UK central bank, will announce its decision on interest rates at noon local time. Analysts said the case for a reduction in the repo rate from 5.5 per cent was finely balanced, with the monetary policy committee – which makes the rate decision – likely to weigh signs of a recovery in growth against what is still a benign outlook for inflation. Labour market pressures are easing and the manufacturing industry is weak.

Signs of a rebound in the services sector, which accounts for two-thirds of gross domestic product, contrasted with official figures showing a further decline in manufacturing output.

Manufacturers cut production by 0.1 per cent in February from the previous month, the Office for National Statistics said yesterday. Textiles, leather and clothing producers continued to suffer. The one bright spot was production of mobile telephones, which soared on strong sales.

● Spending on plastic cards in the UK showed another big increase last year, as the trend away from cash and cheques continued, Christopher Brown-Humes writes. Visa UK said spending on its cards jumped 16 per cent from £92.4bn ($148.8bn) to £107.7bn. The number of Visa cards in issue rose 12 per cent to 50.4m, equivalent to one Visa card for every adult. Europay, the MasterCard affiliate, said spending on its cards in the UK reached £58bn and it had 37.3m cards in issue, up 24 per cent.

Ken Bignall, Visa managing director, said: "There is an inexorable trend away from cash and cheques towards plastic. Spending on cards now accounts for nearly 15 per cent of personal consumption expenditure."

He said that even though the UK was Europe's most developed payment card market, 600 Visa cards an hour were still being issued. Visa's figures showed spending on debit cards rising 14 per cent to £65.4bn.

Siemens to help tackle visa delays

By Rosemary Bennett, Political Correspondent

An emergency team of government officials and executives from Siemens Business Services has been created in an attempt to launch the Home Office's long delayed immigration service information system.

A government official said the backlog of asylum cases had grown to more than 71,000 with 22,000 overseas workers also caught in the delays. But the large group of refugees due to arrive from Kosovo would not be affected. "They will be treated separately," the official said.

Delays to the £77m ($124m) computer project have left the immigration and nationality directorate swamped by a backlog of cases submitted by asylum seekers and people seeking to work in Britain.

But the Home Office denied it had lost control over the project or given Siemens carte blanche to complete it at any price.

"Within the new group there is a separate group which has been set up purely to negotiate with Siemens. This is to make sure that every time we hit a problem the work does not have to stop while we negotiate with the company," a Home Office official said.

Previously, any actions taken to resolve problems had to be agreed mutually between the parties with any financial or contractual implications spelt out in full.

Last month, the Home Office was rebuked by the National Audit Office for choosing an overly-ambitious computer system.

The NAO said while the private finance initiative project would deliver cost savings, the taxpayer would suffer if the project were delivered late. The report warned government departments not to get carried away by the enthusiasm of suppliers.

Sorting science fiction from fact

In the third of a series looking at scientific regulation, **Victoria Griffith** examines efforts to cut fraud

Science under scrutiny

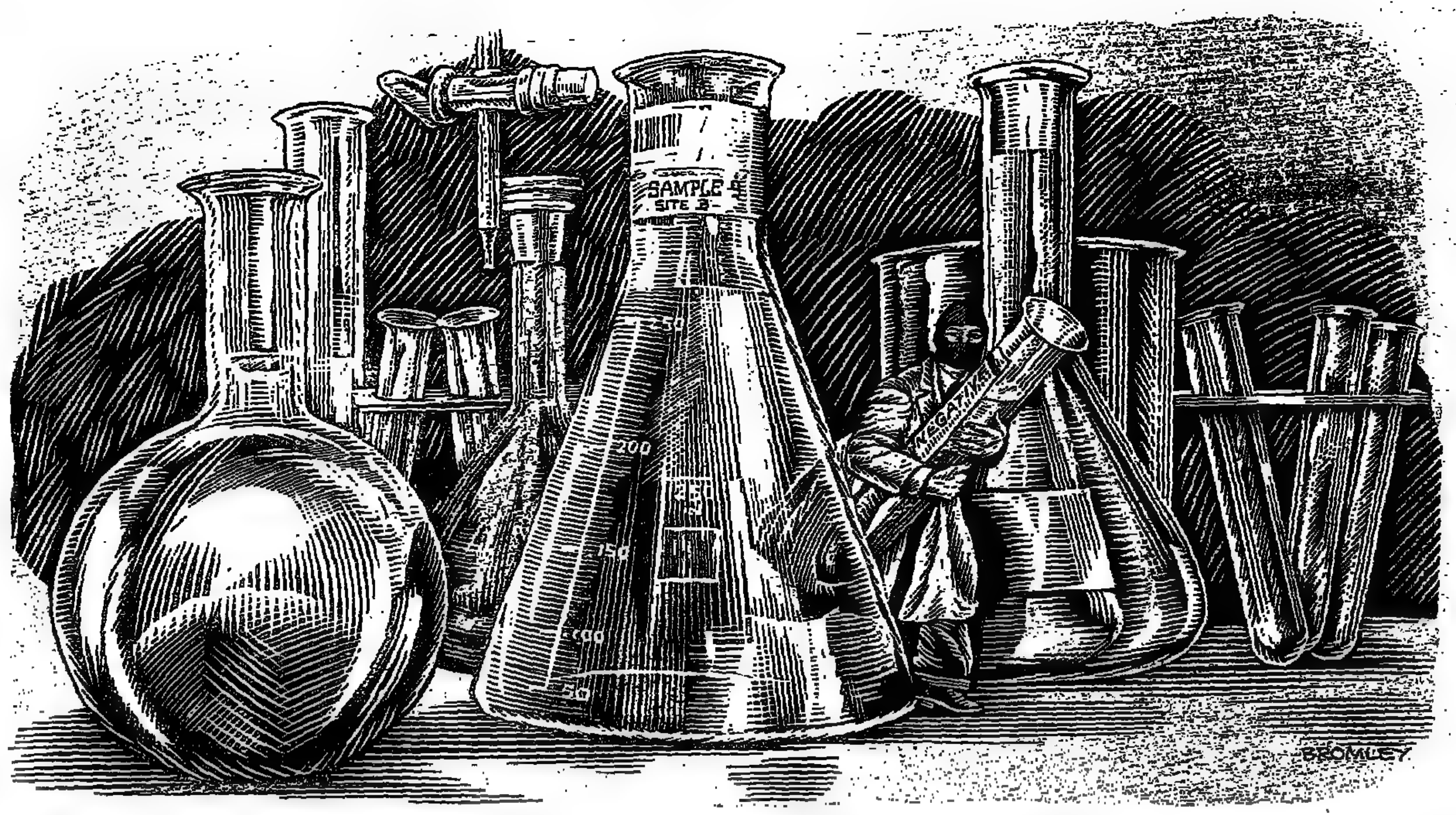
The US government has promised to release a new set of standards for scientific misconduct within the next few months. The scientific community is waiting with bated breath, but should the general public care?

Yes, we should. It has taken a long time for the White House to get its act together in dealing with scientific fraud and plagiarism. Because other countries are further behind, what the US does is important, and refinement of guidelines to root out dishonesty is something to be celebrated.

The public could be forgiven for being weary of scientific fraud scandals. After all, the biggest ones of the decade have come to nought. In 1993, after four years of legal wrangling, charges were dropped against Dr Robert Gallo, the American who claimed to have discovered the HIV virus.

Dr Gallo had been accused of robbing both the virus and international recognition from Professor Luc Montagnier of the Pasteur Institute in Paris.

While Dr Gallo probably should have given credit to Prof Montagnier for sending him the virus in 1984, the US courts eventually recognised that Prof Montagnier could not grow the virus or prove it caused Aids. Dr Gallo could therefore legitimately lay claim to the HIV-Aids connection. Likewise David Baltimore, a Nobel prize winner, was exonerated a few years ago from his alleged role in using fabricated data to show how the body tailors antibodies to its attackers.



The government's failure to prove its highest-profile cases has, in fact, excited sympathy for those accused of fraud. "It's much easier to make an accusation than to prove fraud really occurred," says Boyce Rensberger, director of the Knight Science Journalism fellowships at the Massachusetts Institute of Technology. "These cases take a long time to settle, and the innocent party in the meantime will be shunned. The falsely accused find it difficult to get work. In science, you're guilty until proven innocent."

Yet the government cannot afford to turn its back on cases of scientific misconduct. While rare, fraud and plagiarism in the scientific community does occur. According to the Food & Drug Administration, up to 10 per cent of data first reported in the laboratory is thrown out for unreliability at the time of final drug approval. Much of the error is accidental, but some of it is probably deliberate. "The counterfeiting of the US currency is rare," says C.K. Gunsalus, a scientific fraud expert and associate vice-chancellor for academic affairs at the University of Illinois. "Does that mean the government should ignore it? Of course not."

She points out the University of Illinois has just sacked a professor for plagiarism. The case generated no publicity, but shows offences still occur. "Just because the press doesn't report on it doesn't mean there aren't cases of fraud out there," she says.

The nice thing about science is that eventually, misinformation is bound to be discovered. Scientists repeat each others' experiments. Before a pharmaceutical product makes it to market, exhaustive testing must be done both in the laboratory and in human beings. If research is falsified early on, it will probably come to light well before a drug is approved for sale. This may explain why fraud at pharmaceutical and biotechnology companies is rarely a problem, except when patent disputes are involved.

At universities, however, where most scientific research still takes place, the promise of government money for grants, the longing for recognition and the need to secure one's job all combine to make fraud a very real threat.

It has taken the scientific community some time to come to grips with the issue of fraud. In the cosy laboratories of the post second world war era, scientists controlled their behaviour through word-of-mouth. Communities were so tight that credibility was lost or gained on personal reputation. As the field of science flourished, however, word-of-mouth was not a sufficient or reliable control. Yet not until 1989, for instance, were universities receiving US federal grants required to have systems in place to identify and deal with fraud and plagiarism.

The system is still far from perfect. Barbara Mishkin, a Washington-based attorney specialising in scientific misconduct, says the career of one of her clients was unfairly ruined by a frivolous suit brought under the US's "Qui Tam" provisions, a law dating from the American Civil War that promises the whistle-blowers of fraud a large financial stake in any final settlement. The case involved accusations of plagiarism over research on a rare virus. "We won the case on appeal in the fourth circuit," says Mishkin.

"But in the meantime, my client's career was severely compromised." Many scientists believe the Qui Tam provisions should be revoked.

'It's much easier to make an accusation than to prove fraud really occurred'

Another problem is a lack of protection for university committee members accusing scientists of fraud. In February this year, the Baylor College of Medicine in Texas finally settled a long, costly battle with sacked physiologist Kimon Angelides. Prof Angelides had filed a civil suit against Baylor and 14 individuals at the university for ruining his career.

The university had found that Prof Angelides falsified and fabricated figures in five journal articles and five grant applications. After a federal appeals board backed Baylor's findings, Prof Angelides settled the suit without compensation for himself, although the university agreed to pay his lawyers $500,000.

The scientific community and government are aware that more work needs to be done to prevent abuses, both in the laboratory and in the courts. New guidelines from the White House should help define scientific misconduct.

The American Association for the Advancement of Science has begun working with universities to encourage mentoring programmes that instill a sense of ethics from an early age. Both the government and universities are getting better with practice at distinguishing and prosecuting cases of fraud.

Internationally, too, the scientific community is making moves to ensure misconduct will be dealt with. Unesco has been working on a new set of rules for the publication of scientific results. After many years of ignoring the issue, governments around the world are beginning to face the issue of scientific misconduct and much is to be learned from US successes and mistakes.

Germ of an idea: Robert Gallo was cleared of poaching the discovery of the HIV-Aids connection AP

CONTRACTS & TENDERS

EMSA — CODICE 91 — gruppo TELECOM ITALIA

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Which consists of seven floors above ground plus two underground floors, with a gross floor area of 10,100 sq.m. The underground floors consist of cellar accommodation, storage, storage space for the shops and the control rooms of various technological services, with a total floor area of 1940 sq.m. The ground floor consists of shops (about 900 sq.m.) and offices (about 630 sq.m.). The remaining six floors are made up of offices, of which about 1930 sq.m. are let and another 4730 sq.m. are currently vacant (total office floorage about 6660 sq.m.). The building has a second entrance in Via della Mercede

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For further information interested parties may contact: **EMSA S.p.A. - telephone 06.44.19.03.34**

TECHNOLOGY

INFORMATION TECHNOLOGY INSURANCE

An online policy to improve efficiency

The advent of a virtual exchange on the net may signal a new era, says Roger Taylor

Financial markets have been among the first to benefit from the internet's potential to create near-perfect markets for everyday consumer items. The growth of online stock trading and the online mortgage business has demonstrated the possibilities. But the insurance industry – the largest single financial industry – has remained largely untouched.

This is surprising because insurance is among the least efficient financial markets. Distribution costs are estimated to account for 20 per cent of premiums. Perhaps more than any other industry, insurance could benefit from the internet.

The problem is the complexity of insurance policies. To compare all the options available and weigh price against coverage would take buyers far too long. This complexity pushes up the cost of selling the product. It is also the reason why internet companies have been loath to enter the industry, preferring books, CDs and consumer electronics instead.

That could be about to change. Ken Hollen, and his brother John, two internet entrepreneurs with a background in insurance, have set up a company with the potential to bring unparalleled competition and efficiency to the insurance industry.

Channelpoint, based in Colorado, is building a virtual insurance exchange in which risks can be traded with a remarkable degree of flexibility.

This prospect does not immediately please insurance companies. Much of what insurance companies do – assessing and selling risks – could be largely automated by sophisticated computer networks, reducing common insurance cover to the most basic of commodities.

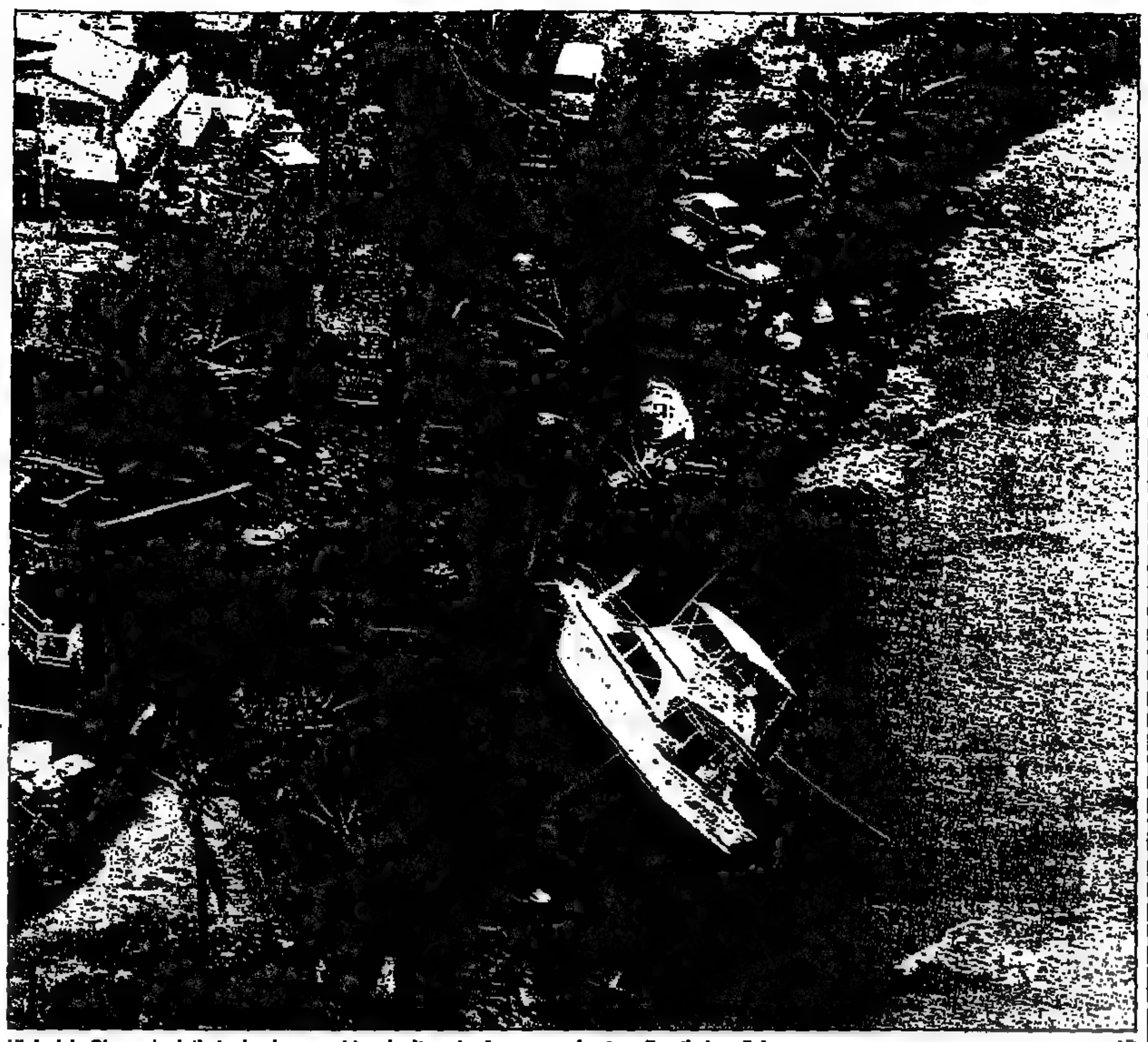
This is one reason why insurance companies have not moved as quickly as they might have to embrace the internet. Much of the industry has done little more than post information about products on corporate web sites.

There are a handful of internet insurance brokers that allow you to compare rates for standard private insurance products online. But buyers still need to confirm the premium and the availability of cover with the company.

One company, Insweb, has gone further. It has created a site that allows you to connect directly with a number of insurance companies where quotes can be accepted online. But Darrell Tycehurst, president of Insweb, admits it was not easy to get insurance companies to work with him.

Channelpoint is building technology capable of producing far more fundamental changes to the insurance industry. It has won support from some by allowing insurance companies to manage their presence in the planned virtual insurance market in much the same way as they would in the real insurance marketplace.

Many insurance companies know that, long term, the internet is the logical medium for the business carried on between an insurance company, broker and customer. However, they also realise there are less disruptive ways to move towards that point, and Channelpoint has made itself look like one of the less disruptive routes.



High risk: Channelpoint's technology could make it easier for companies to refine their policies AP

Its project is ambitious. It has set out to build virtual models of insurance markets which capture every detail of the real markets, from the terms of each insurance policy, to the way claims are handled, to aspects of the distribution and marketing channels.

It is starting with group health policies – the first product is launched this week. Its model of an insurance policy has several thousand elements, allowing, for example, for 168 different types of diabetes-cover clause.

Consumer can therefore specify to the smallest detail what they require in a policy and then find the cheapest quote. Furthermore, it allows the buyer to adapt market-wide information into whatever format best suits them.

Being able to manipulate market-wide information about insurance in this way would put a powerful new tool in the hands of buyers. Channelpoint, however, does not intend to put all this information directly into the hands of the consumer.

Instead it has built a software interface which other organisations can use to sell insurance through the web. These could be existing insurance companies, banks, retailers, or internet companies such as Insweb.

In this way insurance companies can decide which products they offer and at what prices through each of the different channels. The system, which can be used to renew policies and handle claims, can also be used to target different levels of service to different customers.

Its project is ambitious. It has set out to build virtual models of insurance markets

Insurance companies can use the system to adjust their rates on every other aspect of a policy more easily than they can in the real world. They could, for example, offer a rate specifically set for married doctors with three kids in New York.

Channelpoint's approach has yet to be tested in practice, but it is the approach which, in theory at least, has the potential to produce a significant improvement in the efficiency of insurance distribution and to take costs out of the claims handling.

If successful, the effect on the industry could be dramatic. It could lead to a market in which policies become increasingly broken down into elements that can be bought and sold through electronic markets. Prices could be quoted on individual aspects of an insurance policy which distributors could package together.

Insurance buyers could specify what level of cover they require, and then let underwriters bid for the policy.

Claim handling could be more easily outsourced to specialist groups. Individuals could put up assets to underwrite risks and manage their risk portfolio just as they now manage their stock portfolio.

Mr Hollen makes clear that the company plans to take one step at a time.

But he is confident that the long-term impact of the technology will result in the end of the traditional vertically integrated insurance company, that does everything from participating in wholesale reinsurance markets, designing and underwriting a vast range of private and business insurance policies to marketing and distributing these products.

It will speed up the move to a "horizontal" insurance industry, with some, for example, specialising in analysing and underwriting risks and others in packaging risks into policies.

This is not good news for the insurance industry. It will lead to the commoditisation of risks and is also likely to increase the level of self-insurance by large companies, which would be able to assess their risk more clearly. However, many in the industry see it as inevitable.

Channelpoint launches its first product this week – a group health policy to be sold in the New York area.

It is a big start for the company but in comparison to the long-run potential to move the insurance industry on to the internet it is a very small first step.

IT VIEWPOINT STEVE FRANCE

Shaping up for battle

The information appliance market has big potential and two rival camps are eyeing its riches

The impact of the internet continues to grow. Analysts predict that by 2002 there will be 200m internet connections in the world.

Intriguingly, however, according to some forecasts, about half of new internet connections will not be PC-based, but will use a new device called an "information appliance" rather than a personal computer.

An information appliance is any device that can be connected via a network (such as the internet or a corporate network) to some form of information source or control function, ranging from equipment controllers in industrial plants to games machines, screen-phones and televisions.

Information appliance markets are potentially accessible to consumer electronics companies and to companies with an IT background. There is a potential battle developing for these emerging markets between two opposing camps: the traditional consumer electronics companies such as Sony and Philips, and the more business-to-business oriented IT organisations such as Intel, Microsoft and Sun.

Both sides have some of the capabilities needed but both need to address certain issues. The challenge is likely to be greater for the consumer electronics companies because they have more at stake and the greater need to change. The issues include:

- **Growing use of software in a hardware world:** Consumer electronics products are predominantly hardware based. The internet is changing fast and consumers will be wary of product obsolescence. The only way to avert some of those fears is to adopt a software-based approach that allows for easy upgrades.
- **Multi-partner working practices and intellectual property:** A few very highly resourced companies may be able to keep up with internet technology and related software. But increasingly companies will work with specialist partners. With this will come the issue of who owns the rights to the products.
- **Rapidly decreasing product development time:** Research and development functions are likely to need restructuring to handle both reduced time-to-market and new ways of working with partners.

The IT companies have financial muscle and extensive experience of the internet and related IT architectures, but they face issues of their own in addressing these new markets. These will include:

- **Market entry:** Consumer electronics companies are already satisfying the needs of consumers through established distribution channels. Although there is some brand awareness and loyalty in the business market, it is not as important as it is in the consumer electronics world.
- **Cost engineering:** The consumer electronics marketplace is much more price-sensitive than business IT markets.
- **User friendliness:** Sophisticated equipment needs user interfaces that are intuitive and simple to use. IT companies have often fallen down in this area.
- **Product styling:** This is vitally important for product differentiation in consumer markets. It is connected to trends in fashion, a concept less familiar to IT companies.

If the marketing forecasts are to be believed, both types of company have a lot to gain from an early presence in what are likely to be huge new markets. The issues faced by consumer electronics and IT companies are different, but the prize is the same: dominance of what could be one of the world's biggest growth industries.

The author is a principal consultant at PA Consulting Group.

TECHNOLOGY WORTH WATCHING

Compound clue to how foods prevent cancer

Why does a diet rich in fruit and vegetables reduce the risk of developing cancer? Research carried out at the University of Wisconsin-Madison suggests that the answer may lie in compounds called isoprenoids.

There are more than 22,000 isoprenoids, all of which are derived from a compound called mevalonic acid. They help regulate germination, growth and flowering, while contributing to the distinctive flavours and fragrances of plants.

The researchers investigated two compounds that appear to exert an anti-carcinogenic effect by suppressing an enzyme and so depriving tumour cells of the chemical intermediates they need to multiply. They looked at gamma-tocotrienol, a compound found in cereal grains and beta-ionone, a isoprenoid found widely in fruit and vegetables.

The study, which is reported in the Journal of Nutrition, showed that cancer cells were more sensitive to these compounds than normal cells, and the two compounds had a stronger effect when combined.

University of Wisconsin-Madison, US: tel 6082621332; http://www.wisc.edu/

A scanner for the battlefield

The most common cause of death on battlefields is internal bleeding. Often, the patient would have a chance of recovery if the medical staff could immediately assess the injuries using the technology available within hospitals.

The Office of Naval Research and the Defense Advanced Research Programs Agency in the US is sponsoring the development of portable technology for treating victims of war and disasters. A handheld ultrasound scanner has been developed by a ATL Ultrasound, a technology company, to provide images of internal organs and detect sites of internal bleeding that might not otherwise be apparent.

Office of Naval Research: US, tel 7036960738; nishike@onr.navy.mil

Artificial liver undergoes trials

Clinical trials are starting for the first artificial liver device that uses human rather than pig cells.

It is designed to act as a temporary liver for patients with acute liver failure, keeping them alive until their own liver can recover or until a suitable organ becomes available for transplantation.

Known as the Extracorporeal Liver Assist Device (ELAD), it is produced by VitaGen which is based in La Jolla in California.

Several devices have been developed to perform this role using liver cells from pigs. But the use of pig cells provoked concern about the possibility of spreading diseases from animals to humans.

The artificial liver based on human cells, which is now being tested at the University of Chicago Hospitals, is designed to avoid these risks. Another advantage is that the device can be used continuously. The artificial livers containing pig cells could be used for no more than six to eight hours each day.

The device consists of a two-chambered cartridge filled with liver cells, which is attached to the groin. It separates the plasma from other components of the blood and pumps it through the cartridge where it comes in contact with millions of liver cells, which should function as a normal liver. The treated plasma is then filtered and returned to the patient.

University of Chicago Hospitals: US, tel 7737026241; http://www.medcenter.uchicago.edu/

Sealant to plug pipework

A sealant material that automatically repairs cracks and leaks in pipes has been developed by German researchers. The self-healing sealant was developed to tackle leaks in sewer pipes.

The sealant, developed at the Fraunhofer Institute for Environmental, Safety and Energy Technology in Oberhausen, is made of a hydrogel, a material consisting of a polymer network and water. When the sewer is assembled, the liquid polymer compound is poured over the pipe joints, and hardens in minutes.

Fraunhofer Institute: Germany, tel 2088598121; e-mail wa@umsicht.fhg.de

Exhaustive route to reducing pollution

A new design for a car exhaust system could improve engine performance and be friendlier to the environment.

A vehicle's exhaust system reduces noise and controls pollutant emissions via the silencer and the catalytic converter. But muffling the noise and controlling emissions are achieved only at a cost.

To reduce sound levels the exhaust flow passes through different diameter pipes and chambers which reflect the sound waves back to the engine.

However, these changes in flow mean the engine has to work harder to expel the exhaust, resulting in a loss of power and increased fuel consumption.

Professor Ahmet Selamet, from the Department of Mechanical Engineering in The Ohio State University, has collaborated with workers from Ford Motor Company to solve some of these problems.

The team has developed a complete exhaust system that satisfactorily reduces noise while recovering some of the lost power.

Like several other designers, Prof Selamet directs the exhaust gases through a wide chamber. This change in diameter reduces the noise level. However, the design actually guides the gases through tubes or runners that pass through the centre of the expansion chamber. The only contact between the gases in the pipes and the chamber is through small perforations.

Although exchange is limited, Prof Selamet says that the expansion chamber still reduces engine noise.

"The majority of the exhaust flow is retained in the pipes, but because of the perforations the oscillations still recognise what's outside the pipe and the chamber still reflects the waves back."

The Perforated Muffler Manifold Catalyst (PMMC) reduces the back pressure in the system by 30 per cent, which in turn improves engine efficiency, boosting performance by 3-5 per cent.

This may seem an insignificant increase, until the large number of cars on the road is taken into account.

"Imagine a few million cars implementing such improvements," says the designer. "When such a number is multiplied by a small percentage, say in fuel consumption, it adds up to large quantities."

The PMMC also improves the performance of the catalytic converter, particularly by reducing the time taken to reach its operating temperature of about 250°C.

While the catalyst is cold the pollutants pass straight through. "Gases will warm up the metal of the system as well as the converter," says Prof Selamet. "The longer the pipes, the longer it'll take.

By bringing the converter closer to the engine we use most of the energy rather than waste it heating up the pipes when starting up the engine."

This improved heating reduced total pollutant emissions by 15 per cent.

The PMMC is being patented. Ford has experimented with variations of this concept in prototype vehicle designs and is considering developing similar systems.

Edwin Colyer

Unwanted gases: the newly designed exhaust system could reduce pollutants Amanda Gazidis

MANAGEMENT VIEWPOINT BENEDICT ROTH

Risky models for traders

Embarrassing losses during last year's crisis in Russia show how the systems that banks use to calculate risk are encouraging increased exposure to extreme events

How much do we really know about risk? Banks deploy armies of risk experts and phalanxes of computers to keep their trading positions under control. But their risk departments failed to avert embarrassing losses in last year's market corrections. Even J.P. Morgan, the originator of RiskMetrics, the industry's most widely used risk model, had to issue a profit warning in the last quarter.

The International Monetary Fund, in a post-mortem report on the correction, advised banks to improve their risk models and sharpen the professional judgment of their experts.

Sound judgment is indispensable. But what about the models? Are they a solution to the risk problem or could they make the problem worse?

This might at first sound odd – like the theory that motorists with seat belts will drive more dangerously than those without – but recent theoretical work and market observation suggest it is true. Indiscriminate use of mathematical risk measurement models can encourage traders to behave more dangerously.

Such models use historic market data and statistical techniques to predict, with a given degree of certainty, "value at risk": the size of the trading losses that a desk might take. A value at risk of $1m at 99 per cent confidence tells managers and regulators that on 99 trading days out of 100 the desk should not lose more than $1m.

The problem is that value at risk models say nothing about the potential loss on that exceptional 100th day. But risk managers use them all the same because they know from experience that trading losses usually fall within some normal range. The desk with $1m of value at risk might lose $2m or perhaps $5m on the 100th day, but a loss of $10m would be surprising and a loss of $100m would border on the impossible.

So why should the use of such a model make traders behave more dangerously?

Traders seek to maximise profit and profit is impossible without risk. If risk is measured with 99 per cent confidence, traders will, in theory, tend to increase exposure to rare events – events that occurred only once in 100 days or less often. And their drive for profit would lead to exposures of catastrophic proportions.

In other words, 99 days out of 100 their profits and losses would be acceptable but on the crucial 100th day they would break the bank.

Changing the confidence level of the model's forecasts, perhaps to 99.9 per cent or down to 95 per cent, would not stop disaster striking. Rather, it would change the frequency at which disaster struck. The risk manager's crucial assumption – that exceptional trading losses will still fall within some normal range – is invalid.

Although this analysis – by Ton Vorst at Erasmus University in Rotterdam – is purely theoretical, similar trends have been observed in practice: first in corporate lending markets, then in options and, most interestingly last year, in Russia.

At the beginning of this decade, corporate lending was subjected to what we may think of now as the first simple risk model, the Basle Committee's original capital adequacy standards. These required banks to hold capital equal to 8 per cent of their corporate lending, regardless of the riskiness of the borrower.

It is now widely acknowledged that the Basle standards encouraged risky loans to chase out safe ones. It is less widely acknowledged that recent changes in the standards, permitting banks to calculate capital adequacy on the basis of value at risk figures, may be having the same effect on option trading portfolios.

Almost every financial engineering innovation to hit option books in recent years – barrier options, quantos, options on options, credit default swaps – has allowed traders to make money on hedged portfolios. They have been able to do so without increasing their exposure to normal market swings and therefore without registering additional value at risk or additional regulatory capital. But all these instruments increase traders' exposures to extreme events.

Then came Russia. How could western banks maintain exposure to Russia when many economists and even the credit market itself predicted devaluation or default?

Considering its risks, investment in Russian debt might be difficult to understand in spite of the attractive returns. But on the basis of value at risk, Russia was an excellent investment. Defaults and devaluations are too rare to figure in value at risk models because these models are based only on the recent past.

A portfolio of Russian debt, with good profits under normal conditions but occasional catastrophic losses, is a practical example of the kind of unstable trading book which Ton Vorst's research foresees.

So what is the proper way to regulate how much capital banks hold against risk?

First, we should recognise that bank capital is held against unexpected trading losses, not expected ones. Models reflecting risks under normal market conditions are inappropriate for capital adequacy purposes. More focus on rare events and sensitivity to individual institutional circumstances is needed.

Second, we might reconsider the importance of the "level playing field". Some regulators backed the Basle Committee's capital standards to protect depositors. But the most important force was the fear in Europe and the US of competition from foreign banks that might undercut the price of loans by holding less capital. Capital standards based on risk models were a shield against competition and were adopted ubiquitously under the banner of the "level playing field".

Standards designed to be applied universally cannot be sensitive to the special circumstances of particular institutions. And they are insufficiently subjective to focus on rare events. They will merely encourage the concealment of trading risk in ever more complicated disguises.

Third, we might encourage market forces to play a greater role in regulating bank capital adequacy. Most banks with significant market risk profiles need to attract deposits or maintain credit relationships with trading counterparties. Given improved disclosure of banks' policies and practices, might not the rating agencies and the wholesale credit market be powerful enough to ensure their prudence and stability? The invisible hand is surely more sensitive and more powerful than the regulator's.

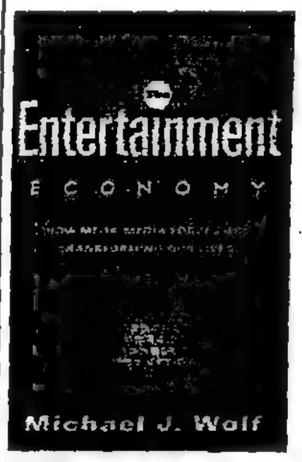
The author is a risk manager at Rabobank International in London. His views are personal. He acknowledges the help of colleagues at Rabobank in developing the ideas expressed above

Wolf's world: 'We see our lives as a series of little boxes that need to be filled' Gasper Tyngale

BOOK REVIEW MANAGEMENT

Successful business is show business

Christopher Parkes is entertained by the argument that products must be fun to attract consumers' jaded interest



The Entertainment Economy, How Mega-Media Forces are Transforming our Lives

Michael J. Wolf

$25
Times Books

The idea that business can be fun has been accorded much lip-service and consoled many a manager in times of stress. But the nagging argument of *The Entertainment Economy* – that business *has* to be fun or it will fail – presents the notion in an altogether less comforting light.

In this persuasive book, Michael Wolf proposes that in a world where all products are created equal, by companies with access to the same tools, systems, management theories and outlets, entertainment content is fast becoming the sole differentiator.

Fun is the one component that will enable a product to pass the jaded consumer's "so what?" test.

It is also the factor with the least endurance. "Companies need to provide entertainment experiences that engage consumers. Once they have done that today, they must wake up tomorrow and think of a new way to do the same thing . . ."

Coming from Mr Wolf, who established and runs the entertainment practice at the Booz-Allen Hamilton management consultancy, this nightmare scenario might be seen as a ploy to drum up business.

After all, the hyperactive author has already done the rounds at most of the handful of leading specialist entertainment companies in the US, and is as keen as the next how-to merchant to keep the fees coming in.

But as Mr Wolf writes, companies such as Ford Motor Company and Citibank came to him unbidden looking for ways to incorporate entertainment into their business strategies. The Starwood hotel chain lured Richard Nanula, Walt Disney's chief financial officer, to be its chief executive (his predecessor, Steve Bollenbach, runs Hilton) and Delta Air Line's new CFO is a transplant from NBC.

Hotelkeeping is no longer a matter of merely providing bed and board. As Starwood has recognised, recreation, fun and entertainment comprise the stock in trade of Las Vegas, which is, in essence, the world's leading hotel complex. Delta knows that little Virgin Atlantic prospers in an environment dominated by lumbering commodity carriers because a flight with the British airline is more akin to a party than a journey.

Entertainment delivers an audience – and an audience, by definition, is a group of like-minded buyers.

Mr Wolf concludes that just as the computer revolution made the position of chief information officer essential for most companies, the "entertainmentization" of the economy is doing the same for the post of chief entertainment officer.

The author has conjured from a welter of anecdotes, statistical evidence and informed observation an argument that will give even the most sceptical cause to look at the world in new ways.

What is the new Volkswagen *Beetle*, after all, but a car in a clown-face?

That KeyCorp automated teller machine with an attractive woman on a full-size screen asking how much cash you want and offering a quick round of a video game while you decide: is it just an extravagant marketing ploy or, as the Wolf thesis proposes, a service with real added value?

From vacations down, old patterns of time use are being supplanted

To appreciate the value of a two-minute dalliance with a playful ATM, the reader must accept another provocative Wolfism: "In much the same way that learning to think of the world as round rather than flat enabled people to envision new avenues and opportunities . . . our model of time has changed from a slow-moving river to a highly-segmented grid," he writes.

"We see our lives the way television executives see their week: as a series of little boxes that need to be filled."

That "old-fashioned concept; free time" is chopped into chunks of varying length – most shorter than in the past – each to be filled, because as nature abhors a vacuum, scheduler-consumers abhor an empty time slot.

From vacations down – the weekend trip now accounts for more than half of US holidays – old patterns of time use are being supplanted.

Superimpose the popular perception that people have less time than ever for themselves, the tendency to do several things at once and the proliferation of entertainment choices, and a picture emerges of a world filled with "time surfers" and companies clamouring to capture their attention for even a few precious seconds.

"Culture, demography and technology are all pushing us toward one goal: extracting the last drop of fun out of every experience," writes Mr Wolf.

Retailing, advertising, the restaurant trade, airline travel and news broadcasting have already fallen to the "entertainmentizers".

Next comes the workplace. Web snoopers claim 27 per cent of internet traffic from offices and factories is not business-related; 15 per cent of employees with internet access have shopped online while at work.

Is there a senior manager's office out there *without* a television screen flickering? Not in Mr Wolf's experience.

And even if most are tuned to the CNBC business channel or its international peers, programmers whose basic materials consist of dry data have recognised that they have to be entertaining if they are to compete in the entertainment economy.

Mr Wolf, whose book is as much fun as instruction, tells a salutary tale of the events between 12.32pm to 12.36pm on March 21 1997, when, in the middle of an uncommonly heavy trading period, volume on the New York Stock Exchange crashed 37 per cent.

A brief investigation revealed CNBC as the culprit. It had aired a four-minute feature on sex and the internet.

Richard Grasso, the NYSE chairman, was so rattled he called Bill Bolster, president of the network. "If you guys are ever going to do something like that again, please give me a heads up."

You have been warned.

The Entertainment Economy is available from FT Bookshop at £19.99 by calling +44 181 324 5511

هكذا من الأصل

CINEMA

Truth vs a big payout

Nigel Andrews enjoys John Travolta's switch from hair-gelled cynic to moral crusader

Our text today is Baudelaire's apostrophe to his readers: "*Hypocrite lecteur – mon semblable – mon frère!*" Some filmmakers surely recognise their audience as brother hypocrites. One moment, we don't care at all about an issue. The next, art can make us care, at least for the span of a film, play or poem.

So stand up, please, all those who have ever thought they should stop buying leather because of what tanneries can do to the environment; or stop using paint-stripper; or stop subscribing to any of the world's 1m known toxic pollutants.

Three of you, as I thought. Yet we watch *A Civil Action*, an eco-lecture cum truth-based legal drama, and get all steamed up about toxic wastrels. We hiss the conglomerates who poison the land. And we cheer the personal injuries lawyer (John Travolta) who finds his soul by throwing his money after a good cause. While his firm edges towards bankruptcy, Jan Schlichtmann (actual name, actual man) follows the murky, costly lead from a cluster of leukaemia child deaths in a New England town to a brace of big-company polluters.

If this hero wore a baseball cap and dirty anorak, he would be TV crusader Michael Moore. Instead he wears Armani, or closest equivalent, and is played by Travolta with the hair gel left over from *Get Shorty*. He is so repellent initially – "I can appreciate the theatrical value of several dead kids," he declaims with an ambulance-chaser's dismissive cynicism – that he almost *has* to undergo conversion. So after visiting Wooburn, Massachusetts, to tell the parents to stop bothering him, he muses: what if it isn't a little, no-money case (as first seems) but a David versus Goliath fight? And whatever it is, shouldn't justice be done?

The filmgoer muses correctly: this must be a Robert Redford production. The Sundance Eco-Kid has a flair for making consciousness-raising commercial films and in Steven Zaillian, who scripted *Schindler's List*, he has found a writer-director who makes a terrific fist – raised and brandished – out of Jonathan Harr's bestselling book about a case that ended in defeat for both hero and villain(s). This lawyer *did* lose his money and firm. The giants *were* finally humiliated, though in an appeal-case postcript rather than the Schlichtmann showdown.

A CIVIL ACTION
Steven Zaillian

THE RED VIOLIN
François Girard

HIGH ART
Lisa Cholodenko

BEDROOMS AND HALLWAYS
Rose Troche

SLAM
Marc Levin

Zaillian's trick is to chop up the narrative. He keeps cleverly intercutting a scene in which Something Important happens with a later scene in which it is reported or post-mortem'd.

So, as well as watching Travolta horse trade with the enemy lawyers, led by Robert Duvall, or parry the psyching techniques of a company CEO (sly cameo from director Sydney Pollack), we hear and see the aghast or quizzical reactions of his colleagues. This device amplifies and contextualises each step in a complex story.

At the movie's heart is a conflict between justice and money. The parents want a public apology, Schlichtmann-Travolta wants a giant payout. So truth and honour find the perfect crack to fall through, given an extra push by Duvall's foxy old-timer whose great trick is pretending to be Mr Has-Been.

Whether Sellotaping his battered briefcase or bouncing a worn baseball on the law-courts wall, Duvall is riveting. Even Travolta's skilled performance has to back against the scenery, catching the knocks. Duvall won an Oscar nomination for this deceiving old rogue who would surely, to return to our origins, have delighted Baudelaire. *Hypocrite avocat, – mon semblable, – mon frère!*

*

The Red Violin is a Euro-pudding made by a Canadian: no ethnic cleansing, praise be, in cinema. François Girard follows his *32 Short Films About Glenn Gould*, that concisely dazzling theme-with-variations on musical genius, with this beguiling multi-story fable about a violin handed down through centuries.

An Italian instrument baptised with a dead wife's blood passes on to a *wunderkind* Austrian orphan in 1792, thence to an 1890s English virtuoso (Jason Flemyng) entwined with a beautiful writer (Greta Scacchi), thence to China's Cultural Revolution, finally to a New York auction room stalked by Samuel L. Jackson, who is to priceless violins what Bluebeard was to wives.

Each country speaks its own language, so prepare for subtitles. And each story has a teasing allegorical reverb, so prepare for mental exercise. (Free clue: the English episode is about the Devil.) The film has all the faults of a Euro-pud: too much "If it's Tuesday it must be medieval Italy", too much can-we-borrow-your-lighting-crew variable colour photography. But the violin catches us up as a multi-function symbol, of art or the heart or human feeling in general at its highest stringing and pitch.

Which brings by helpful portamento to *High Art*. With *Bedrooms and Hallways* this American lesbian love story makes a brace of gay tales this week. The first has Ally Sheedy, ex-bratpacker of *The Breakfast Club* and *About Last Night*, gauntly falling for magazine assistant Rhada Mitchell, who becomes her muse, model and editor.

Sheedy's dropout photographer is trying to drop back in, though handicapped by a home life that seems to involve giving flat-space to an army of friends wanting to use their noses as vacuum cleaners. To make matters quirkier, Sheedy's lover is an ex-Fassbinder actress (Patricia Clarkson) with a heavy German accent and heavier cocaine habit.

The drug culture ambience and magazine chit-chat – favourite adjectives are "intense" and "cerebral," favourite name-drops are Dostoevsky and Barthes – are both camper than the gay love scenes. These push the film dangerously towards seriousness, even sensitivity. Acutely acted, especially by the newer leaner Sheedy, they prove that gay eroticism in cinema can wholly bypass pornography to find the heart and mind.

Bedrooms and Hallways, by comparison, is a British shambles, though also directed by an American woman: Rose Troche of the spry lesbian agit-comedy *Go Fish*. Troche seems out of her depth, or rather grounded in shallows, in this Notting Hill roundelay. The film resembles a gay version of *This Year's Love*, even to having Jennifer Ehle reprise her "this year's Meryl Streep" act.

A loves B loves C loves D until the audience, slipping towards coma, goes "Zzz". Robert Farrar's script fails to convert flippancy to wit and the actors, from youngsters Kevin McKidd, Tom Hollander and James Purefoy to old hands Simon Callow and Harriet Walter, seem to be responding to prompt-cards saying "Mug harder". At least, as with *High Art*, we can applaud the visual frankness. Never in a single week have British screens welcomed so much same-sex deep kissing.

Slam suffers from aesthetic whiplash. The Washington DC-set tale of a black rapster-poet (Saul Williams) jailed on drugs charges but bailed in time to have his soul saved by a poet-teacher (Sonja Sohn), lurches from realism to sermon via melodrama. Fine moments, and fine acting, may explain the movie's booty of festival prizes. But so may its determination to be all films to all judges.

Robert Lepage's *Nô* and Trey Parker's *Orgazmo* are single-word titles needing scarcely longer reviews. The first is a don't-bother French Canadian collage about love and terrorism. The second is a don't-even-think-about-it satire on the porn industry from the gone-to-better-things creator of TV's *South Park*.

'A Civil Action': Robert Duvall (left) and John Travolta, a skilled double act of legal foxes

How to fit 22 Abba songs into a hit musical

THEATRE
ALASTAIR MACAULAY
Mamma Mia!
Prince Edward Theatre, London

Even between consenting adults, there are certain predilections to which one does not lightly confess. In my case, a fondness for Shirley Temple's movies is one such. Now it is joined – herewith vanishes my social life – by the fact that I actually enjoyed *Mamma Mia!*, the new musical based on the Abba songs of the 1970s. People have been ostracised for less, and many of my heretofore dearest friends will now race to be the first to cast stones at me.

Still, the charm of *Mamma Mia!* is not inconsiderable. Not least the music, which has an effusive innocence and open-hearted exuberance almost extinct in the modern musical. Real pop music of this sort is so much more appealing, so much less pretentious, so much more suitable for infectious theatrical entertainment than the tawdry bombast of most Lloyd Webber and all Boublil-Schonberg. Abba's music (music and lyrics by Benny Andersson and Björn Ulvaeus) has certainly been overrated; but – and I speak as one who turned away from pop music in my early teens in 1970 – *Mamma Mia!* proves that Abba have been underrated, too. Songs like "Dancing Queen" and "Just One Look" burst upon your senses, sweet and instantly sensational.

"We are past the era of ironising about Abba," someone said to me on press night. Oh yeah? The show's makers ironise about these Abba songs right, left and centre. Every other time a character starts to sing one of the famous numbers, the timing is so shameless that the audience chortles. But not for long. Even when the staging goes deliberately retro and evokes Abba's old costumes and makes a Big Number out of something like (say) "Super Trouper", something big and simple rises through the thick fabric of the music and transcends the archness and campness of the situation.

So what if these songs weren't written for a musical? There's plenty of precedent for taking the hit songs of one group (or singer) and stringing a stage show around them. Elvis Presley and the Beatles squeezed their hits into their pop-musical movies; and in 1973, the choreographer Twyla Tharp made a sensation with her Beach Boys ballet *Deuce Coupe* (which she went on reviving, most successfully, into the 1990s). The notion that songs should be written for a dramatic context has caused, since 1942 and *Oklahoma!*, the gradual unmaking of the musical in musical terms. Shows like *Mamma Mia!*, by putting their priorities on the music, are reversing the grim trend of the last 50 years.

And *Mamma Mia!*'s plot? To everybody's surprise, there is loads of it. It's colour-blind, hunk-susceptible and gay-friendly. Three dads and a wedding! Part of the fun turns out to be the sheer suspense of finding how on earth 22 Abba songs can fit into all this; but nine out of 10 do. Catherine Johnson has given the story just enough emotional *depth and dramatic variety to hold the attention, and just enough transparency to suit the songs. And, yes, irony. Admittedly, the most exuberant occur in Act One; and Act Two ends very low-key. But then, like Saturday Night Fever*, when the plot is over, the show enters its own *1970s* pop nirvana and explodes into one hit reprise after another.

As for the staging, its best features are Mark Thompson's simple and flexible sets, and the central performance of Siobhán McCarthy as Donna, bringing the same ardent naturalness to both singing and her role. Phyllida Lloyd's direction often makes too little of both the music and the large stage (there are several musically ineffectual exits and entrances, for example, and several scenes are scaled as if for a space more intimate than the big Prince Edward); Howard Harrison's lighting could make several scenes more telling than they are; and Hilton McRae is underpowered as one of Sophie's three potential dads.

Still, Lloyd and her choreographer, Anthony van Laast, elicit generally good performances all round. Jenny Galloway and Louise Plowright make much of their roles as Donna's old girlfriends. You shouldn't take *Mamma Mia!* seriously: which is precisely why it proves *to be one of the few good musicals* on the London stage today.

CONCERTS BARBICAN/ROYAL ALBERT HALL

Good luck strikes twice

Once the reviews of the first night have appeared, a visit to the opera can be a predictable occasion. Those with a penchant for the unexpected are much better off going to a concert, where there is no telling when good luck might strike.

Contrary to the law of probability, it struck twice in London just before and after Easter. Tuesday night had been planned as one of the big events at the Barbican this spring: a programme of solemn Bach cantatas, taken out of the Church and uniquely given a fully staged outing by Peter Sellars, the American director regarded by some conservative opera-goers as the nearest thing to the devil.

Sadly, it did not happen. The intended solo singer was unable to appear and her replacement, the French contralto Nathalie Stutzmann, apparently did not fancy trying her hand at the meaningful slow-motion semaphore gesturing that has been a feature of Sellars's previous stagings of Baroque music – who can blame her?

Instead, we had straightforward concert performances of two of Bach's best-known solo cantatas – *Vergnügte Rüh* and *Ich habe genug* – interspersed with instrumental concertos by Bach and Corelli. Playing without a conductor, the Orchestra of the Age of Enlightenment did what early music groups invariably do best, making music like a chamber group in which every player is an equal.

Stutzmann, an infrequent visitor to London, sang simply and with dignity. In her song recordings the voice can be discouraging, alternating between a thick wobble and a vibrato-less hoot; but aided by a sympathetic orchestral accompaniment, it sounded more evenly produced and easily flowing here. The hushed reprise of Schlummert ein, the slow movement of *Ich habe genug*, was particularly lovely. Far from missing Sellars's staging, most people were probably glad the music was left to speak for itself.

The wheel of fortune had also turned an unexpected revolution on the Thursday before Easter at the Royal Albert Hall. My last encounter with the Royal Philharmonic Orchestra and its music director, Daniele Gatti, had been a dismal concert in their Berg and Mahler series, which did not bode well.

At first, this latest instalment in their on-going Mahler cycle at the RAH only promised more of the same: Hakan Hagegard's grey singing in the *Kindertotenlieder* drained the songs of even the slightest colour. If he was trying to replicate the intimate scale of the Lieder singer in this hall, it was a bad miscalculation.

So it was a welcome surprise when the orchestra and conductor returned after the interval to overturn all expectations with a brilliant, marvellously detailed, tinglingly alive performance of the Fifth Symphony. This was no half-hearted repetition of accepted notions about how the symphony should go, but an interpretation that had been freshly thought through.

It was a joy to hear the Scherzo dance so lightly and the famous Adagietto played at a speed which allowed the music to sing in whole lyrical lines, not haltingly note-by-note as usual. Evidently to pre-judge an RPO concert under Gatti is tempting fate.

Richard Fairman

INTERNATIONAL

Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
Dutch National Ballet: programme combining the Dutch premiere of Acts of Light by Martha Graham, with the world premiere of Krzysztof Pastor's Bitter Sweet, and Balanchine's Symphony in C; Apr 8, 9

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Otello: by Verdi. Conducted by Carlo Rizzi in a staging by Klaus Michael Grüber, with a cast led by Vladimir Bogachov; Apr 10, 13

BONN

EXHIBITION
Kunst- und Ausstellungshalle der Bundesrepublik Deutschland
Tel: 49-228-917 1200
www.kah-bonn.de
High Renaissance in the Vatican: Art and Culture at the Papal Court (1503-34). The early 16th century saw Rome establish itself as the centre of art in Europe, with the Vatican commissioning work from artists including Leonardo da Vinci, Michelangelo and Raphael. This exhibition displays some of the masterpieces that resulted, as well as detailing the contexts in which they were produced; to Apr 11

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
Glenn Miller Orchestra: conducted by Ray McVay in a programme of wartime classics; Apr 10

Royal Festival Hall
Tel: 44-171-960 4242
● Academy of St. Martin in the Fields: Sir Neville Marriner celebrates his 75th birthday. The programme includes works by Mozart, Britten, and Mendelssohn; Apr 14
● BBC Philharmonic: Endless Parade. Programme of works by Britten. Conducted by Yan Pascal Tortelier and featuring the BBC Singers; Apr 10
● London Philharmonic Orchestra: conducted by Leon Botstein in works by Wagner, Khachaturian and Dvořák; Apr 9
● London Philharmonic Orchestra: International Series featuring Hadyn's The Creation conducted by Sir Roger Norrington; Apr 11

EXHIBITION
Hayward Gallery
Tel: 44-171-261 0127
www.hayward-gallery.org.uk
Patrick Caulfield: major retrospective of the British pop artist; to Apr 11, then touring in Europe and the US

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Mefistofele: by Boito. Conducted by Oliver von Dohnányi in a new staging by Ian Judge; Apr 9
● Salome: by R. Strauss. David Atherton conducts a staging by David Leveaux, with a cast starring Vivian Tierney; Apr 10

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
www.laphil.org
Los Angeles Philharmonic: conducted by Hans Vonk in works by Webern, Mozart, and Schubert. With piano soloist Lars Vogt; Apr 10, 11

MADRID

EXHIBITION
Fundación Juan March
Tel: 34-91-435 4240
Marc Chagall: Jewish Traditions. 40 paintings by the Russian-French painter, produced between 1909 and 1976; to Apr 11

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: Uptown Blues – Ellington at 100: brings together the Lincoln Center Jazz Orchestra, with Wynton Marsalis, and the New York Philharmonic, led by Kurt Masur. The program features Ellington's compositions arranged by Marsalis along with a performance of the Peer Gynt Suite; Apr 8

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Giulio Cesare: by Handel. Returns to the repertory with John Nelson conducting and Jennifer Larmore in the title role. Production by John Copley, sets designed by John Pascoe, and costumes by Michael Stennett; Apr 10
● Susannah: by Floyd. James Conlon conducts a new staging by Robert Falls, with a cast led by Renée Fleming and Samuel Ramey; Apr 9, 13
● The Queen of Spades: by Tchaikovsky. Conducted by Valery Gergiev in a revival of Elijah Moshinsky's staging, designed by Mark Thompson. The cast is led by Plácido Domingo, Galina Gorchakova and Olga Borodina; Apr 10

PARIS

DANCE
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
Le Parc: this production of Mozart's ballet is choreographed by Angelin Preljocaj with sets by Thierry Leproust, costumes by Hervé Pierre, and lighting by Jacques Chatelet. Stéphane Denève is the musical director; Apr 9, 10, 13,

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
Lucia di Lammermoor: by Donizetti. Conducted by Bruno Campanella in a staging by Andrei Serban and Robert Carsen, with designs by William Dudley; Apr 8, 11, 14

PERUGIA

EXHIBITION
Galleria Nazionale dell' Umbria
Tel: 39-075 574 1247
Beato Angelico and Benozzo Gozzoli: Renaissance Painters. Organised to mark the 500th anniversary of Fra Angelico's death, this show includes missing sections of his Polittico dei Domenicani, lent by the Vatican so that the whole, restored polyptych can be seen in its entirety; to Apr 11

TAMPERE

EXHIBITION
Sara Hildén Art Museum
Tel: 3583-214 3134
www.tampere.fi/hilden
Tony Cragg: 33 sculptures and a large number of drawings by the British-born artist; to May 9

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Japan Philharmonic Symphony Orchestra: conducted by Kazufumi Yamashita in works by Beethoven, Rodrigo, and Ravel and featuring Kaori Muraji on guitar; Apr 11

DANCE
NHK Hall
The Royal Ballet: the British company's tour opens with Swan Lake; Apr 11

VIENNA

EXHIBITIONS
KunstHausWien
Tel: 43-1-712 0495
Jean-Michel Basquiat: Paintings and Works on Paper. 100 works on loan from the Mugrabi Collection make up the first show in Austria devoted to the black-hispanic US artist; to May 2

Osterreichische Galerie Belvedere
America: The New World in 19th Century Painting. Dealing with the period from the Declaration of Independence in 1776 until the US entry into World War I, this show brings together works from major museums and collections in the US; to Jun 20

OPERA
Wiener Staatsoper
Tel: 43-1-51444
Macbeth: by Verdi. Conducted by Simone Young in a staging by Peter Wood. Cast includes Leo Nucci and Eliane Coelho; Apr 9

ZURICH

EXHIBITION
Kunsthaus Zurich
Tel: 41-1-251 6765
Chagall, Kandinsky, Malevich and the Russian Avant-garde: exhibition exploring the artistic upheavals of the first two decades of this century. Includes important loans from the State Hermitage Museum in St. Petersburg; to Apr 25

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 06:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS: CONFLICT IN YUGOSLAVIA

QUENTIN PEEL

Unhappy birthday

Instead of celebrating its 50th anniversary, Nato should be resolving the problems revealed by its blunders in Yugoslavia

In two weeks' time, the Nato alliance is supposed to be celebrating its 50th anniversary with a big birthday bash in Washington, DC. It is going to be a grim occasion.

The party was meant to celebrate the success of the transatlantic alliance in winning the cold war, and its enlargement to include the first new members from among its old enemies in the Warsaw Pact. Russia's presence was intended to underline the benign and open-minded character of the organisation. And the whole affair was supposed to set the seal on a "new strategic concept" opening the doors to a future Nato role of international peacekeeping, and curbing the spread of weapons of mass destruction, in addition to its traditional task of collective defence.

All that is now in doubt, thanks to Kosovo. Instead, the occasion will have to concentrate on forcing Slobodan Milosevic to end his campaign of ethnic cleansing in Kosovo.

It is one of the bitter ironies of the summit that its timing was an important factor in why the whole Kosovo operation was undertaken belatedly, and in such haste. The allies in general, and President Bill Clinton in particular, were desperate not to have a messy confrontation in Kosovo overshadowing their anniversary. They postponed the evil day repeatedly. Then they rushed into it without thinking through the consequences. The end result is the worst of all possible worlds: a half-hearted bombing campaign against a ruthless and determined opponent, who has exploited the hesitation to drive forward his own race war in Kosovo.

Thus far, Mr Milosevic has made all the running in this confrontation. He used the prolonged attempts at peace negotiations – including US ambassador Richard Holbrooke's high profile trips to Belgrade – to prepare for a military campaign to drive the Albanians out of the rich northern parts of Kosovo. The two-week suspension of the Rambouillet peace talks was a bonus: he boasted at the time that he would need just one week to complete his conquest. He got it.

The Nato bombing campaign has given him the cover to do so: the withdrawal of international observers, and the excuse of total mobilisation, gave the Albanians no protection. Now Mr Milosevic can propose partition of the territory, keeping the fertile north for new Serbian settlers, and allowing the Albanian refugees back into a pacified and impoverished south, protected by a Nato peacekeeping force.

If the Nato allies are to deny him that outcome, they must show a great deal more determination than hitherto. They cannot repeat the mantra that ground forces will not be used. And they must show themselves ready to outlast Mr Milosevic, which means bombing his military forces into withdrawal, even if that means taking many more casualties over many more months.

That is the grim priority for the Washington summit. If Nato fails, then its credibility will be forfeit. But even if it succeeds, the alliance's future needs to be reconsidered in a much more fundamental way than has yet taken place.

There are two separate, and not entirely compatible, strands in thinking over the future of Nato on the two shores of the Atlantic. The US priority is to turn the alliance into much more of a global policeman, sharing its own burden with its European allies on the world stage. Dealing with dictators – such as Mr Milosevic and Saddam Hussein – and curbing the spread of weapons of mass destruction, is all part of it.

Kosovo has demonstrated the limitation of that view, given Americans' unwillingness to suffer casualties on the battlefield (a reluctance shared, indeed, by others). Air power simply cannot deliver peace on the ground against ruthless men with guns, however superior its technology. Iraq has shown that as much as Yugoslavia.

The priority of the European Union members of Nato is very different. They are much more cautious about playing a big role outside the Nato area, and far more concerned to strengthen the European contribution to the Atlantic alliance. Eventually they would hope to be able to conduct operations without relying on US men and *matériel* – although still with US approval, of course.

Kosovo has also dented that ambition. The Europeans had to admit that they lacked the equipment – both for precision bombing and reconnaissance – to carry out the campaign against Mr Milosevic. They also lacked the political will to do so without the Americans.

The one thing Nato has proved in Kosovo is that it has the military capacity to do what it is told. But it is a blunt instrument, designed to deal primarily with a predictable military opponent, such as Russia. Now, that role has gone – and Nato is ill designed to deal with the vicious brush fires and political infighting which have succeeded the comfortable predictability of the cold war era.

Nato's leaders must therefore do three things in Washington. First, they must scrap any hint of celebration. In Kosovo, there is nothing to celebrate. Second, they must demonstrate their absolute determination to reverse the ethnic cleansing, with ground troops if necessary. Partition would amount to a blessing on ethnic cleansing. And third, they must reopen the questions about the whole future of the alliance. Nato's blunders in former Yugoslavia have cruelly exposed the sort of long-term problems the alliance is facing. These have scarcely begun to be considered, let alone resolved.

LETTERS TO THE EDITOR

Conflict fails the test of what makes a war just

From The Rev Peter Hatton.

Sir, The logic behind Humphry Crum Ewing's attempt to justify Nato intervention in Yugoslavia is flawed (Letters, March 31). If Serbia is not a recognised sovereign state whose boundaries are to be respected, then neither are the other fragments of former Yugoslavia: Croatia, Bosnia, Slovenia, Macedonia. In fact, at no stage before the bombing did any external power suggest that Kosovo was not an integral part of Serbia. Autonomy was offered, not independence.

As to legitimate authorisation, it is true that the matter has been "rehearsed" in the UN on several occasions. There is probably general agreement there that Serb repression in Kosovo is a bad thing (though widespread indignation would be hypocritical given the similar record of many other UN members). However, the Nato countries have not sought specific authority from the Security Council because they – rightly – assume that such a resolution would be vetoed by Russia and China. Accordingly, there is no specific mandate for any use of force from the only body that could legitimately give such authority.

Furthermore, for a war to be just, the amount of force used has to be proportionate and sufficient to ensure success. The conflict fails this test not because too much force is being used, but too little and of the wrong sort. The sole effect of a fortnight of bombing has been to trigger a barbaric campaign of ethnic cleansing. Even to a country parson it was clear from the start that it could never have done anything else. To achieve Nato's stated aims the campaign would have had to involve large numbers of ground troops from the beginning.

Christian reflection on *jus in bellum* has always been very realistic. Only on the grounds of right intention can the Nato leaders be exonerated from the charge of launching an unjust war. Good intentions are not enough.

Peter Hatton,
Droitwich Methodist Church,
Droitwich,
Hereford and Worcs, UK

Send Russia in to police Kosovo

From Mr Nick Lynam.

Sir, I read Niall Ferguson's article on the Kosovo crisis, "Bleeding hearts and bloody messes" (FT Weekend, April 3-4), with hope at first, and then increasing delusion.

The article is a critical and detailed analysis of the situation. It contains some logic, hard though it may be to swallow, and some criticisms with which the reader may or may not agree. I searched the article for concrete and positive ideas about how to solve the situation. As usual in such political comment, nothing. Hence my delusion.

It is indeed easy to criticise. People who decide actions and carry them out also make mistakes. My questions to Mr Ferguson are: does he have anything positive to offer? Or does he prefer to turn a blind eye and wait for the Milosevics to come to his door? Be assured they will come and they do not knock.

Here are two positive ideas for discussion: a Russian-led police force in Kosovo, with Nato as observers; a Nato ceasefire for three days to let President Slobodan Milosevic decide whether to accept the terms.

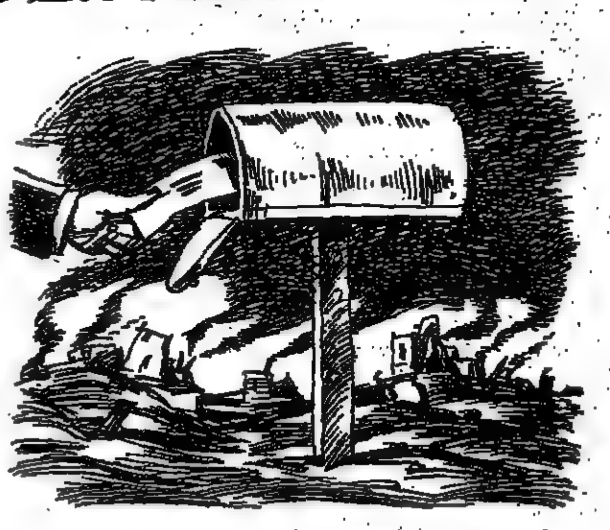
Mr Ferguson and others may also knock these ideas, but can they come up with anything better?

Nick Lynam,
43 rue du Marechal Foch,
67000 Strasbourg,
France

West played into Milosevic's hands

From Mr Tobias K. Vogel.

Sir, Your comment "Deliberate use of force" (April 1) asserts that President Slobodan Milosevic of Yugoslavia is losing touch with reality. If he was prepared to compromise last October, you ask, why not now that the bombs are falling on Belgrade?



Your puzzlement is misplaced. Far from being out of touch with reality, Mr Milosevic has based his calculation on the assumption that he needed time to prepare the "ethnic cleansing" of Kosovo, that air strikes would not prevent him from carrying it out, and that he could complete it before any Nato ground troops would be deployed. All these assumptions are being borne out by current events.

The basic western mistake was to declare from the beginning that ground troops would under no circumstances enter Kosovo against Yugoslav resistance. I strongly suspect that Nato ground forces will enter Kosovo in an adversarial context within the next eight weeks. But this comes too late to reduce the terrible human costs borne by innocent civilians on the ground.

In light of these facts, your recommendations appear quite inadequate. You call for a ceasefire; but we negotiated a ceasefire in October, put to good use by President Milosevic to prepare for a final solution to the Kosovo question. A ceasefire proposed by the Yugoslavs for Orthodox Easter seems to be mainly intended to explore whatever splits there may be in the Atlantic alliance.

You recommend a reduction of Yugoslav troops; but we already negotiated an agreement on troop reductions that President Milosevic disregarded without consequences. You advocate the deployment of Nato peacekeepers; but, two weeks into the crisis, we can safely assume that troops will arrive too late to prevent displacement. We refused to send troops to protect endangered populations; now we will send troops to protect a depopulated territory.

Tobias K. Vogel,
122 East 42nd Street,
12th floor,
New York,
NY 10168,
US

Echo of previous generation's hypocrisy

From Mr Rodney E. B. Atkinson.

Sir, I have never been so ashamed of my country. The illegal attacks on the sovereign Yugoslavia are despicable, cowardly and disastrous.

The elected and re-elected President Milosevic is no more an "evil dictator", as he has been labelled by the press, than presidents Franjo Tudjman of Croatia and Alija Izetbegovic of Bosnia. President Tudjman is on record as saying that "genocide is a natural phenomenon; it is not only permitted it is recommended by the Almighty". President Izetbegovic believes that "there can be no peace between the Islamic faith and non-Islamic institutions. Islam must take power as soon as it is numerically strong enough . . . and destroy the non-Islamic power."

So why is Nato not bombing Croatia and Bosnia? They have killed and expelled hundreds of thousands of Serbs – 40 per cent of the refugees from Yugoslavia are Serb. The first ethnic cleansing was of 40,000 Serbs from Croatia in 1990 by President Tudjman, who declared the Serbs in Croatia "an alien minority".

Nato itself conducted the biggest ethnic cleansing in Yugoslavia, when in 1995 200,000 Serbs were driven out of their historical homeland in the Krajina, where they were a far bigger majority than Albanians are in Kosovo and Metohije.

What rank hypocrisy. We have probably sown the seeds of a major war between east and western Europe – which was precisely the result of kowtowing to "German Europe's" blunderings a generation ago.

Rodney E. B. Atkinson,
60 Ashbourne Court,
Woodise Park Road,
London N12 8SB, UK

Drop arms to Kosovars by parachute

From Hanna Koscia.

Sir, If it is unwilling to send ground troops to Kosovo, Nato should at least drop enough small arms and munitions for the Albanian villagers to defend themselves from expulsion. As a veteran of the Warsaw uprising I can vouch for the effectiveness of such parachute drops, even when a large part of the weapons falls into enemy hands.

In such a situation, the arms reaching those who hardly have any have a far greater military effect than those that fall into the hands of their well-armed persecutors. They certainly helped us resist the might of the German army for 63 days. Because of no further participation of our allies or our airbourne brigade from the west we could not fight any more. The lives of the survivors were saved when we had been declared as allies (combatants respected by the Geneva Convention).

What is more, with its crushing air superiority and advanced technology – far in excess of that of the allies in 1944 – the drops can be far better targeted today.

Hanna Koscia,
Raynes Park,
London, UK

Dividing the region is the answer, as it was in Bosnia

From Mr Alexis Gerratt.

Sir, The best way to solve the Kosovo crisis is to divide the region. This was also the best solution in Bosnia but was against US foreign policy interests. Although retaining multi-ethnicity is a noble notion, this will not work. The US excuse for shooting down the 1992 peace agreement in Bosnia was to preserve such liberal ideas – even though Bosnian Moslem President Alija Izetbegovic wrote in his *Islamic Declaration* that there can be no co-habitation between Moslems and other groups in Bosnia and called for a pure Islamic state to cover the region.

The west knows division is the answer but is afraid to be seen to endorse the ascendance of ethnic nationalism over liberal ideals. If this had been done in Bosnia, we would have seen much more progress. The one thing all sides shared was trade, which is entirely separate from hate. One could have expected increased trade and faster locally produced wealth as opposed to relying on outside aid. If the west treated all parties equally rather than behaving like colonialists, the level of economic activity would have been much higher.

Is it not ironic that the demonised Bosnian Serbs are pro-free market and for privatisation but are cut off from international funds, yet the elites in the Bosnian-Croat Federation are hanging on tooth and nail and resisting all reforms, while siphoning off hundreds of millions of dollars in aid?

Alexis Gerratt,
Rue de Theux 54,
Brussels, Belgium

Czech PM makes 'modern law' clearer

From Dr Raphael Papadopoulos.

Sir, When I read in your columns the Nato assertion that the legality of its action against Yugoslavia was based on developments in "modern law" (Leader, March 23), I was not at all clear in my mind as to what is meant by that.

Was it that Nato is following developments in modern law, or that modern law is following developments in Nato, and if the latter what are these developments and what underlies their modernising effect on the law?

In this context, it was very helpful to read the statement by Milos Zeman, the Czech prime minister, who said that "he preferred a diplomatic solution but that the country had agreed with the air strikes in order to fulfil its Nato obligations" ("Czechs caught out by Nato campaign", April 3-4).

In the light of Mr Zeman's statement, the apparent intricacies of the relationship between developments in Nato and in modern law become easier to understand. Surely the suitability and modernity of any law would have been placed under serious question if it failed to follow developments in modern concepts related to fulfilment of Nato-membership obligations as pointed out by the Czech prime minister.

Raphael Papadopoulos,
52 Asmuns Place,
London NW11 7XG, UK

Strikes confirm Russian fears of past 40 years

From Mr James Denman.

Sir, The strategic risks of Nato's intervention in Kosovo are drastically underestimated. A few hundred miles to the east of Kosovo, 150m Russians are watching in shock. Forty years of official propaganda against Nato are suddenly being confirmed: Nato is attacking a brother Slav people in Serbia. Russia's weakness is humiliatingly brought home.

If President Boris Yeltsin suffered a further, fatal heart attack tomorrow, Russian politics would be thrown open to demagogues and worse. In the late 1930s, Germany proved just how receptive a humiliated people could be to siren songs of national virtue and evil foreigners. The consequences devastated Europe. Zhirinovskys would find it only too easy to play on ordinary Russians' misery, sense of unfairness and suspicion of Nato. A Russia moving united in new-found, militaristic vigour against the west is a frightening thought. Every day that we, Nato, remain in Yugoslavia, we make it more possible.

However much we wish to think that air strikes represent "doing something", they are clearly not forcing Slobodan Milosevic to his knees. The second world war, Vietnam and Iraq all tell us that air strikes alone never will. We have two choices: to commit our soldiers' lives to a decisive ground war, or to pull out. To do otherwise is to incur a risk we could never justify to our children.

James Denman,
9 Rue Maximilien Lambert,
77920 Samois-sur-Seine,
France

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers worldwide. Letters may be faxed to +44 171-873 5938 (set fax to 'fine'), e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages. Fax 0171 873 5938. Letters should be typed and not hand written.

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Thursday April 8 1999

Avoiding a fruitless harvest

The US and the European Union now have a chance to lay to rest one of the silliest and most dangerous trade disputes they have *ever indulged in.*

They should learn from this opportunity to defuse future upsets. The ruling by the World Trade Organisation against the EU's banana import regime, under which Brussels gives favourable treatment to African, Caribbean and Pacific friends, is clear. Parts of an amended EU regime contravene WTO rules and Washington now has the right to impose sanctions of more than $190m a year on EU imports to the US.

This should, in a sensible world, bring an end to a six-year quarrel over a perishable fruit barely produced by either party. The US has been influenced by one dominant banana distributor and the EU by its fruit traders; a straight commercial conflict but with wider implications.

The dispute has been so prolonged by procedural dodging by the Europeans and inflamed by *threats of unilateral sanctions* by the US, that it risks infecting important matters, such as trade in genetically modified foods, hormones in beef, and antibiotics in food. Bananas have thus become a test of the WTO's credibility and of the quality of US-EU relations. Will the protagonists pass that test?

The onus is now on the EU to comply with the ruling without delay. It can face US sanctions or alter its banana regime to fit WTO rules.

For the first time, the panel *suggests* what needs to be done to comply. But better still, the EU could do something not recommended by the panel: scrap the regime.

Simply accepting sanctions would be unacceptable because the innocent would suffer. Tinkering with the regime would be just as bad. The regime is wrong in concept and execution. Wrong in concept because it has disadvantaged the *economies it* was supposed to enrich. It has fostered an unhealthy dependency on bananas so Caribbean producers have failed to diversify.

Wrong in execution because the regime costs EU consumers at least 10 times more – in artificially higher prices – than it benefits producers. If the aim is to help poorer economies, direct aid would be less wasteful.

But the EU shows no signs of axing its banana trade preferences. Officials yesterday said they reserved the *right to appeal* against the WTO judgment on the regime – though there is no appeal against the sanctions. It is hard to see what could be gained by that: the regime has been repeatedly condemned by the WTO and its predecessor, the Gatt.

Equally, the US administration has a responsibility. WTO sceptics in Congress have yet to be persuaded that the organisation is effective at solving disputes. This dismal saga has exposed great ambiguities in the WTO's dispute settlement rules. If any good is to come of it, the opportunity should be taken to tighten up and clarify these rules.

The US should play a full part in these efforts, and work harder at persuading its sceptics of the virtues of the *WTO.* If this chance is missed, bananas could be a taste of worse to come.

European rates

Europe has stumbled. Whereas the US has weathered the global economy with strong growth, supported by strong investment and consumption, the euro-zone has done the opposite. An interest rate cut is overdue.

The German economy contracted in the last three months of 1998. Industrial output has collapsed as the world economy slowed. Goldman Sachs predicts German growth of 1.4 per cent compared to 2.8 per cent last year (the European Central Bank keeps its economic forecasts secret). There is no inflation.

Germany accounts for a third of the euro-economy. Italy, which accounts for 18 per cent, looks similar: declining industrial output, weak growth and no inflation. The French economy, 22 per cent of the euro-zone, has proved more resilient, largely due to a more robust service sector. But again, there is no inflation.

The euro-zone will struggle to reach 2 per cent growth this year. This will depend on exports because domestic demand is so weak. Business confidence and investment have been undermined. Consumer sentiment is better, but spending is subdued. Deflation in the euro-zone is a far greater risk than inflation.

Lower interest rates will not help Ireland and Portugal contain their booming economies. This is unfortunate, but cannot be helped. They account for 1.3 per cent and 1.8 per cent of the euro-zone's economy respectively.

Nor will interest rates solve *all* Europe's problems: long-term structural reform is required. But action is also needed to tackle Europe's cyclical problem. With fiscal policy constrained, lower interest rates are needed. The euro's 10 per cent slide against the *dollar has provided some* relief. But not enough.

Lower interest rates are needed to give a boost to European industry. Because 0.25 per cent will do little, the ECB must cut by at least 0.5 per cent. This will demonstrate that the ECB is aware of the importance of demand. It will also demonstrate to an increasingly annoyed US administration that the ECB is not completely oblivious to the importance of European growth at a time when the struggling Japanese economy, and *most of* the developing world, desperately needs to increase exports.

The reason that the ECB has *sat on its hands so far* is presumably that it thought cutting rates, in the face of German demands, would damage its credibility. With Oskar Lafontaine's departure, this is no longer a worry. The ECB should not delay.

Algeria's chance

Algeria's presidential election next week is an opportunity for the country to begin healing the wounds of more than seven years of savage bloodshed.

For the first time since the botched election of 1991-1992, when the Islamic Salvation Front was stopped from winning a parliamentary majority, the campaign is dominated by candidates who believe in dialogue rather than force. The debate is about peace, reconciliation and a gradual retreat of the *army* from politics.

The poll also comes at a time when the level of violence has declined. There are still daily killings, but not the *huge* massacres of civilians of a year ago.

Algeria could miss this opportunity if its fractious regime fails to stick to its promise of a free poll. Given the country's abysmal election record and the fact that promises of free elections have all too often been ignored on voting day, there must be *doubts* about the regime's willingness to remain neutral.

The electoral campaign started inauspiciously, with signs that the regime wanted *to* push a favourite candidate through. Powerful retired generals are said to have persuaded the pro-government party *leadership to* back Abdelaziz Bouteflika, the former foreign minister. This backing gives him a head start over the other six candidates.

Mr Bouteflika says he is committed to work for national reconciliation and a broader dialogue. This is a good sign. But his chances of bringing peace to Algeria would be greatly jeopardised if his victory were the result of a rigged poll.

The other candidates know they are at a *disadvantage.* But they are hoping the lack of unity within the regime will work to their benefit and limit temptations to rig the *ballot.* They remain encouraged *that* outgoing *president,* Liamine Zeroual, who cut short his term after an internal power struggle, is among those in government who are determined *to* hold a fair poll.

The international community missed an opportunity to contribute to the poll's transparency when it failed *to* respond *to* the *calls of some* candidates to insist on the presence of foreign observers. Western governments have also remained largely silent on the election. *It is not* too late for them make clear to the government that Algeria must be held to its word, and that another failed election would *not only* be a recipe *for* more disaster, but would also provoke strong condemnation from the west.

Turning the tide of war

Nato says it will not send ground troops to invade Yugoslavia. But, says David Buchan, there may be little difference between this and sending in peacekeepers after a devastating air war

After two weeks of its air offensive, the tide of war may be turning in Nato's favour. Exploiting *clearer skies over* Yugoslavia this week, allied warplanes have been bombing day and night. For the first time, they caught a *Serb army* convoy in the open in Kosovo on Tuesday.

Nato has now brushed aside as inadequate two peace overtures *from President Slobodan* Milosevic – his March 30 proposal to pull some of his forces out of Kosovo in exchange for an end to all Nato bombing, and this week's unilateral ceasefire by Serb forces in Kosovo. That the *second overture has* come within a week of the first is, said Robin Cook, Britain's foreign secretary, yesterday, a sign "that President *Milosevic is faltering*" (rather than, say, achieving his aim of depopulating Kosovo). To listen to Mr Cook and other Nato leaders, the only determinant of the length of the war is how long it takes the Yugoslav leader to *crumble and sue for* peace on Nato's terms.

But Nato unity could crumble, too. After a wobbly start, when Italy as well as Greece expressed reservations about the bombing, alliance solidarity has steadily increased in response to the brutal ethnic *cleansing* in Kosovo and to the growing realisation by almost all of the 19 allies that Nato's future depends on it "winning" in Kosovo. But three factors could now start to undermine unity within Nato, and public support for it.

First, the conflict will begin to look unjustifiable to voters if Nato strikes continue but Serb operations in Kosovo do not. There was no independent confirmation yesterday that the Serbs had kept their promise to halt attacks on the Kosovo *Liberation* Army (KLA) at 8pm on the previous night; but since they claimed to have virtually destroyed the KLA, they may have done so.

Second, Yugoslavia appears to have a negotiating weapon in the form of Ibrahim Rugova, the moderate ethnic *Albanian* leader. It claims Mr Rugova is ready to discuss peace, the return of refugees and Kosovo autonomy with Belgrade. Reports that Mr Rugova is under house arrest in Pristina, and that his demand for a Serb troop pull-out is being censored, make it premature to say that he will prove a collaborator.

But it would not be out of character for the pacifist Mr Rugova *to call for Nato to stop bombing.* Mr Rugova's credibility had slipped before the conflict. At the Rambouillet negotiations in February, *international mediators* said he appeared to be in a catatonic trance, and handed effective leadership over to the KLA, *who regard him as a traitor.* Many, or most, refugees will take the same attitude. But for those few left in Kosovo, Rugovan pacifism may seem less terrible than what they have got now.

Third, Yugoslavia has found a friendly mediator in Moscow. Galvanised *out* of his sickbed, President Boris Yeltsin first threatened to cut all contacts with Nato, but is now bombarding Western governments with requests for the Contact Group and the Group of Eight to meet to *discuss Kosovo.* Mr Rugova also seems to be at the centre of peace plans floated by Russia. Russian mediation is not *to be lightly* dismissed. They are mindful both of the mischief that Moscow could make (it has already sent one Russian intelligence ship to the Mediterranean) and are anxious to keep on good terms with the alliance's giant neighbour.

All these factors may mean that Mr Milosevic's next peace overture may not be as easy to reject as the first two. *But for the* moment, Nato feels after the setbacks of the first fortnight – the crash of the US Stealth fighter, *the capture* of the three *US* soldiers, the abandonment of many bombing missions due to Balkan cloud cover – the west is now in the ascendant.

Mr Milosevic's next peace overture may not be as easy to reject as the first two

Over the Easter weekend, Nato also changed its war aims in one important aspect. Out of a mixture of humanitarian outrage and military confidence, it demanded *the withdrawal of all Serb forces* from Kosovo to allow the return of *all* refugees protected by an international security force.

In the end, this *appear to* strengthen Nato's commitment to send troops into Kosovo. But allied politicians and planners still say this must, and can, be done without a forced invasion of the province, thanks to the efficacy now of its air campaign.

In the past few days, Nato has virtually finished off Yugoslavia's *air defence as* an integrated system linking radar, command and control computers and missiles. It believes the Serbs may *still* have truck-mounted or hand-held surface to air missiles. These could be effective against raids in daytime or by the slower-moving Apache helicopters which the US is deploying in Albania. Nonetheless, Nato has established clear air superiority, and *is using it to hit:*

- Military infrastructure such as barracks, military airfields, and munitions factories. Many of *the barracks appear to* have beenempty of army and police at the time they were hit, but half of Yugoslavia's top of the line MIG *fighters* have been *destroyed* on the ground.
- Oil refineries and depots. Serbia's two refineries at Novi Sad and Pancevo have been hit, while earlier this week the UK defence ministry was showing off film of a combined *Harrier/* Tornado attack on Kosovo's main fuel depot at Pristina.
- General infrastructure, such *as two bridges across* the Danube at Novi Sad, and some general industrial factories like the chemical works at *Lucani* reported to *have been hit yesterday.*

The political wisdom of hitting targets in Montenegro and Vojvodina (the *Hungarian-populated* area which lost its provincial autonomy at the same time as Kosovo) can be questioned. But such political niceities have taken second place to the overall strategy, which is to weaken Yugoslav *forces* by robbing them of fuel and cutting their communications, and so make it impossible for them to reinforce Kosovo. *Nato will then be able to hit* the 40,000 Serb army and police there.

Indeed, though Nato demands that Serb forces withdraw from Kosovo, its strategy may actually prevent them doing so. Noting the recent French success in blowing the rail bridge across the Ibar river near Kosovo's border with Montenegro, *a defence ministry* official in Paris said yesterday "our aim is to destroy their forces on the spot."

'Nato should remember what happened to Iraqi forces on the Basra Road'

In London, a UK *defence ministry* official warned that the same topography that would make a Nato invasion of Kosovo so hazardous could work against the Serbs, if their retreating armour were caught in a narrow defile. "*They should remember what* happened on the Basra Road," he said recalling the way Iraqi forces, scrambling to get out of Kuwait, got themselves snarled up in a massive traffic jam and were destroyed.

But what if, against the odds, *Mr Milosevic* and his forces are still hanging on in one, two or three months' time? Would then Nato invade Kosovo with ground troops? *The answer still* seems to be no – despite the mounting criticism that by ruling out this option Nato reduces the pressure on Mr Milosevic and despite the rising support among western publics for ground troops as a last resort.

At present, Nato has 12,000 troops in Macedonia. Most of them were sent either to extract international monitors from Kosovo (who actually got out last month) or came as the advance guard of the planned 28,000-strong Kosovo peace implementation force (KFOR) which was to underwrite the defunct Rambouillet accords. Because of this *background,* they are *lightly* armed. The 4,800 British troops, for example, have only 13 tanks, two companies of armoured cars, and one artillery battery between them. Though London may soon send out a few more troops, there *are no plans for major reinforcements* until peace breaks out.

For several reasons, Nato still does not want to contemplate a *fully-fledged invasion.* It would be seen symbolically as even more of an infringement of Yugoslav sovereignty than air attacks. It would also, some in Nato feel, appear to pave the way for Kosovo independence which the alliance does not (yet) endorse.

Then there are the weightier problems of numbers and logistics. All Nato planning has assumed that the allies would need a minimum invasion force of 100,000-120,000 heavily armed troops: that is the number needed to give them an advantage of 3:1 over Serb forces. It would take 6-8 weeks to assemble such a force in Macedonia, which even though it has only two roads into Kosovo is a better launching-pad than Albania. Steep mountains separate Albania and Kosovo, and Albania's main port of Durres does not have the cranes and piers to offload an army.

But the route used to get the KFOR advance guard from the Greek port of Salonika into Macedonia might not be open to an invasion force. Greece, the only ally to call for Nato bombing to stop, is unlikely to be party to an invasion. It would, finally, be *very hard for an invasion force to* manoeuvre through the Kosovar refugees in Macedonia without inviting reprisals on them.

There is, however, *one* new weapon that blurs the distinction between air and ground operations. This is the anti-tank *Apache helicopter.* The US army is deploying 24 of them in Albania, with the MLRS rocket system, to help US A-10 "tank-buster" planes against Serb armour. "Are the Apaches just an extension of the A-10 operation, *or are they the start of* a ground invasion force?" asked one European defence ministry official yesterday.

For the moment, the answer is firmly the former. But that could change. Just as the distinction between air and ground operations is blurring, so could the line between a fully-fledged invading army and a Nato peacekeeping force, backed by Apaches and marching into a country whose forces have been decimated by allied air power.

OBSERVER

Bye Bye Big Finger?

It's called the Big Finger, and it's the time-honoured way each Mexican president hand-picks his successor before leaving the stage. But could the tradition have met its end?

Charisma-free incumbent Ernesto Zedillo has vowed not to *point the finger of fate at anyone,* leaving his party to make up its own mind.

Still, word on the street is that the president *favours his* cowboy-booted interior minister Francisco Labastida as party candidate in next year's presidential election.

That's enraged another presidential hopeful, Manuel Bartlett, who's called for Zedillo to stay away to allow a fair fight.

Bartlett's own efforts at *democratic reform haven't* exactly sparkled. Once he supervised a presidential race when the computers mysteriously crashed, only to be restored to working order with the party candidate suddenly in front.

What's more, Bartlett might be getting distracted from the real *threat. Another political veteran,* Miguel Alemán, is busy handing in his hefty stake in Televisa, the media giant whose soap operas and jingles dominate most Mexicans' *waking hours.*

That conveniently rids Alemán of a conflict of interest just as the contest's about to begin. He's *been coy about his intentions,* but is ahead in the polls.

Alemán could well prove a hit – and bring down the curtain on *the Big Finger show.*

Building blocks

There's been plenty of interest in Moscow about the Swiss-based construction company Mabetex and its contracts to renovate the *Kremlin and other public* buildings.

The country's embattled prosecutor general, who's been *officially suspended by President* Boris Yeltsin, has started a criminal investigation into whether the company gave any kickbacks in return for the *commissions.* Mabetex denies any wrongdoing.

The affair may also interest the Russian State Auditing Chamber, which is *responsible* for *supervising the spending of* public funds. And indeed it's beginning to look into the issue. But it may prove a touch embarrassing: *guess which company helped* build the Chamber's own garish marble-floored, gold-and-glass headquarters.

Holiday camp

Let's hope the US's big-hearted gesture in *taking in 20,000 Kosovar refugees* isn't misconstrued.

Sure, the ethnic Albanians aren't on their way to America *itself, but to the Guantanamo* Bay naval base in eastern Cuba. And of course they'll be surrounded by minefields, barbed wire and US and Cuban watch towers manned by armed troops.

But at least they'll sample the *tropical Caribbean air – even if* they'll be staring at Cuba across the wasteland of the "Cactus curtain", one of *the* last Cold War front lines *around.*

Still, the Kosovars shouldn't expect a warm welcome from the neighbours. Havana disputes the US's right to Guantanamo and *has fizzed with* outrage at Nato's attacks on Yugoslavia. So its response to the visitors, when it comes, is likely to be as heated *as the sky-high temperatures* for which the enclave is renowned.

British back

No matter how far you go in Hong Kong, you can always end up near where you began.

A couple of years ago, Hubert Ng decamped from Cable & *Wireless subsidiary Hongkong* Telecom to become chief executive of SmarTone, an up and coming cellular operator.

But he didn't manage to throw *off the British shackles for long.* British Telecom, C&W's main rival; is buying a big stake in SmarTone – and appointing *directors to its board. So it must* be déjà vu all over again for the polyglot Ng, at least as far as dealing with Brits is concerned.

Which is all rather ironic. The *cognoscenti had once thought* that with Hong Kong back in Chinese hands, there'd be more *takeovers by mainland based* companies and British influence would recede. But that's forgetting that the sun never sets *on the Empire. Anyone for a* G&T?

Exquisite

There's timing – and then there's timing. Pity Croatia, which was planning to drum up US *investment with the opening of a* new consulate in Chicago this week – only to find a brutal war raging on its borders.

Undeterred, the three-day *event – which climaxed with a* concert by Croatian pianist Ivo Pogorelic and the Chicago Symphony Orchestra – continued as planned.

"*They'd gone to so much* effort, there was a feeling that they should go ahead," says one sympathetic adviser. Even so, subjects such as Croatian *tourism and* wine may have seemed a little besides the point.

Yuk

Disturbing *news from China.* A restaurant owner has been sentenced for poisoning the donkey soup at another *establishment. No less than* 148 people fell ill after Chi Jianguo threw poison into his rival's pot. Maybe it'd be best to stick to the gerbil curry in the future.

The Financial Times

100 years ago

American Machinery For Mill In China

America has the honour of having furnished the machinery for the first woollen mill in China. This machinery, which was furnished by *Pennsylvania manufacturers,* is now on its way to Tientsin. We are assured that there was "strong rivalry for the contract *on the part of foreign* machinists", and not unnaturally our American friends are indulging themselves in much self-laudation over their success. We in Britain are so accustomed to regarding ourselves as the world's *provider of textile machinery* that it comes as something of a shock to find a mere American concern making a *successful bid for a share of* the trade.

50 years ago

Three-dimensional Film

Copenhagen, April 7. World interest has been aroused by the claim of a Danish engineer, Mr Wendelboe Schriver, to *have discovered the perfect* three-dimensional film system. A conference of Danish film experts and representatives of a group of American financiers has, *according to Mr. Schriver,* already been held in Paris.

FINANCIAL TIMES
THURSDAY APRIL 8 1999

THE LEX COLUMN

Empty threat

Normally companies trying to win hostile bids reserve their aggression for the management of the target company and direct a charm offensive at shareholders. Not so with Olivetti. As its battle for Telecom Italia reaches its climax, Olivetti is resorting to threats: Roberto Colaninno, chief executive, yesterday said he would make shareholders feel sorry if they rejected his bid.

Investors should not give in to these tactics. Rather, they should view them as the last fling of a company that has failed to win the argument on its merits. Indeed, the threats are just the latest reason to doubt Olivetti's credibility.

The most serious incident occurred last week, when the company sold 24m Telecom Italia shares, depressing its share price. Not only does that mean investors can have little confidence that there is an orderly market in Telecom shares but the market had previously been led to believe that Olivetti's stake in Telecom was negligible.

Add to this the fact that a formal offer document has not yet been published, so investors cannot examine the fine print. Nor has Mr Colaninno made clear who will run Telecom if his bid succeeds. In the circumstances, the offer looks mushy.

If Olivetti was just offering cash, its damaged credibility might not matter. But 40 per cent of its offer is in bonds and shares. Moreover, the offer leaves many shareholders out of the picture: it does not extend to Telecom's savings shareholders, who represent 29 per cent of the capital structure; nor to the 47 per cent minority in Telecom Italia Mobile. There is even a risk that many Telecom ordinary shareholders could end up as a minority, following Olivetti's revelation that it may proceed with its offer if it ends up with a stake as small as 35 per cent.

These minorities could be trapped in the elaborate cascade of Chinese boxes that Mr Colaninno has constructed in order to control a vast empire with the minimum of capital. That is why Olivetti's tattered credibility matters.

Even so, it might still be worth backing Olivetti if it was offering a fancy price. But the offer of €11.50 a share is only middling. That is roughly what Telecom would be worth if it traded on the same cash flow multiple as its peers in the European telecoms industry.

Of course, Telecom has typically traded at a discount to its peers. But that is largely because its management used to be a laughing stock. This is no longer true. In Franco Bernabe, Telecom now has a credible chief executive who has articulated a sensible value creation plan. Telecom shareholders are being asked to vote on this plan at the weekend. They should back Mr Bernabe and not worry too much about Olivetti's threats.

Reed Elsevier

Great idea, appalling execution. Reed Elsevier's move to a unified management structure has been embarrassingly bungled. Hopes that the Anglo-Dutch publisher's nine-month search for a chief executive would produce a top flight candidate are fading fast: the universe of external candidates, consisting apparently of just some 10 chief executives with relevant US media and marketing experience, has now been thoroughly trawled over and the best have demurred.

Since the chief executive job is a novelty at Reed, candidates understandably need persuading they will be allowed real power to unite its confederate halves. This week's resignations of two Dutch board members, highlighting the them-and-us culture still prevailing seven years after the merger, will not help.

So Reed's options are now narrowing. It could go down the Cable and Wireless route and settle for a safe, but dull internal candidate. That looks unpromising: the leading executives from both sides have long appeared semi-detached and the overriding priority is for fresh blood to transcend national squabbles.

A second option would be to emulate EMI, lowering its sights to out-of-sector executives of mid-sized companies. This would be deeply uninspiring.

So it is hardly surprising that some Reed shareholders are tempted by an injection of Wolters Kluwer management in a reverse takeover. The trouble is that Reed and Elsevier would have to give Wolters a far larger slice of the pie than proposed in 1997. Instead of 27 per cent, Wolters could now claim nearer 40 per cent. That is the price to pay for a lack of leadership.

Revlon

Long in need of a makeover, Revlon has finally admitted as much. The cosmetics group's decision to review its "strategic alternatives" sent the shares up 15 per cent yesterday. They have risen 65 per cent since bid speculation grabbed them three weeks ago. Even so, they still languish 60 per cent below last summer's high, when an earnings collapse stripped them of their gloss.

A takeover now could look well-timed, therefore. Revlon has a good brand name and 28 per cent of the US colour cosmetics market – eye, lip, face and nail make-up – just behind L'Oréal which owns Maybelline. Intense competition and a lack of new products have cost the highly indebted group market share and profits. But a deep-pocketed parent could quickly put that right.

Best of all, Revlon is going cheap. With a current enterprise value of $3½bn, two-thirds of which is debt, it is trading on 10 times forecast 1999 earnings before interest, tax, depreciation and amortisation, or 0.5 times price to sales.

Recent industry transactions have averaged 12 times ev/ebitda and 1.7 times price/sales. For Unilever, Procter & Gamble or Johnson & Johnson, Revlon would be an easy bite.

The crux is whether Ronald Perelman, the financier who controls 83 per cent of the stock, wants to sell the jewel in his empire. To date he has preferred piecemeal restructuring. But with his stake having halved in value in nine months he may now be open to offers.

Chinese entry to WTO in US interest, says Clinton

By Stephen Fidler in Washington

President Bill Clinton yesterday said China's entry to the World Trade Organisation would be in US interests, as expectations rose in Washington that negotiators would reach an accord to pave the way for China's WTO membership.

US and Chinese negotiators were still hoping to settle differences over an agreement allowing US companies increased access to the Chinese market in time for a meeting today in Washington between Zhu Rongji, the Chinese premier, and Mr Clinton.

In a hastily arranged speech on China, Mr Clinton said the US had an interest in integrating China into the world trading system and in seeing it join the WTO on "clearly acceptable commercial terms".

"The bottom line is this: If China is willing to play by the global rules of trade, it would be an inexplicable mistake for the United States to say no," Mr Clinton said.

He said allowing Chinese entry to the WTO would not be a favour to China, but that it would allow US companies broad access to China's markets "while accelerating its internal reforms and propelling it toward acceptance of the rule of law".

Mr Zhu, speaking in Los Angeles on Tuesday, said there had been a breakthrough in negotiations over agricultural trade, with China agreeing to lift a ban on wheat imports from seven US states and citrus products from four states. The Chinese premier is on a nine-day visit to the US.

US officials said that while differences in a number of areas remained, some trade experts on Capitol Hill expected an announcement today of a market access deal.

The administration has emphasised that it needs a commercially acceptable agreement, not least because it requires the backing of Congress to allow normal trade relations – formerly known as most favoured nation status – to be granted to China on a permanent basis.

Trade relations are renewed annually, resulting in regular controversy over US-China relations.

Mr Clinton's speech sought to outline the reasons for continued US engagement with China amid controversy over human rights, the alleged theft of US nuclear secrets by China and the build-up of Chinese missiles near the Taiwan Strait.

He chose to focus not on the dangers a strong China might pose to the US – the threat most often emphasised by conservative critics – but on the challenge posed by a weak China "beset by internal conflicts", such as social dislocation and criminal activity.

He warned there was a risk that next year's US presidential election campaign could lead to a "campaign-driven cold war" with China.

This would, he said, have "tragic consequences" that would benefit no one "except for the most rigid backward-looking elements in China itself".

Theft of N-secrets, Page 8
China currency pledge, Page 4
China Telecom, Page 24

Developing nations face slow growth, warns World Bank

By Robert Chote, Economics Editor

Weak world trade growth, falling commodity prices and a lack of external finance will condemn developing countries to their slowest rate of economic growth since 1982 this year, the World Bank said yesterday.

In its annual Global Development Finance report, the bank lowered its forecast for economic growth in the developing countries to 1.5 per cent this year from the 2.7 per cent it had predicted last October. Growth is not expected to return to its long-term average of 4.5-5 per cent before 2001.

"Although the risk of a deep global recession has receded in recent months, the crisis in emerging markets is likely to be deeper and more prolonged than earlier assessments had suggested," it said.

In part the deterioration reflects a gloomier outlook for world trade, with growth having more than halved since 1997 to an estimated 4.2 per cent. Meanwhile, the price of non-oil commodities, an important source of revenue for many developing countries, fell by 16 per cent last year and is expected to drop another 6.3 per cent this year.

These factors will reduce export earnings, implying a greater need for external finance. But the crises of the past two years have meant that the supply of investment funds for emerging markets is smaller and the cost of borrowing higher, forcing squeezes on domestic spending.

"The deteriorating external environment has also brought domestic weaknesses into sharper focus, including chronic fiscal deficits in several large developing countries, the need for corporate and financial restructuring in many Asian economies, and civil or cross-border conflicts in Europe, Asia and Africa," the report says.

The bank expects the world economy to grow 1.8 per cent this year. The US economy is forecast to expand 3.1 per cent, but with domestic demand fuelled by stock market gains. "That does not look to us like being a healthy situation," said World Bank economist Uri Dadush.

Net long-term financial flows into developing countries fell from $338bn in 1997 to $275bn last year. This decline was dominated by flows from international capital markets.

If the crisis in Brazil is resolved, the Bank believes that flows from international capital markets may recover steadily over the next few months. But with only 15 emerging market economies retaining investment grade credit ratings, capital flows for 1999 as a whole are still expected to be down on last year.

In the face of this decline, foreign direct investment flows into developing countries have remained relatively resilient, falling only from $167bn in 1997 to $155bn last year. The deterrent effects of recession in many recipient economies have been offset by the opportunity to make acquisitions at rock-bottom prices.

Foreign direct investment has been particularly resilient in the Asian economies, except in Indonesia, where political problems saw it collapse from more than $6bn in 1996 to barely $1bn.

Analysis, Page 5

CONTENTS

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Pro-independence East Timorese in shock after being attacked in the town of Liquica by supporters of Indonesian rule. Portugal has called for United Nations intervention in its former colony. Picture: AP

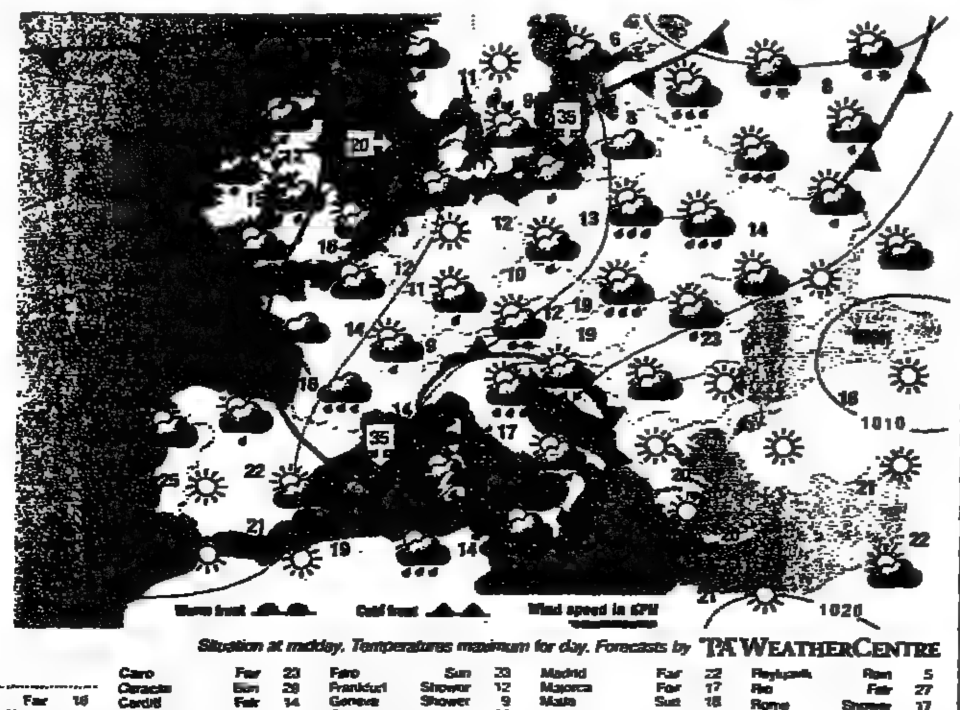
FT WEATHER GUIDE

Europe today

Italy will have showers and local thunder. The eastern Balkans and Greece should be sunny but the western Balkans will turn showery. The Iberian Peninsular will be sunny but patchy rain will affect northern Spain. A weak front will bring drizzly rain to western France. Eastern France, the Low Countries, Germany, Austria and Switzerland will have sun and showers. Scandinavia will be fine and bright.

Five-day forecast

Italy and the western Balkans will be unsettled and Greece and the eastern Balkans will become showery. The western Mediterranean and north-west Europe will be fine and warm tomorrow and Saturday but the settled the weather will break on Sunday and Monday. Northern Britain and Scandinavia will have rain followed by brighter conditions.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	28
Accra	Fair	33
Algiers	Fair	19
Amsterdam	Fair	12
Athens	Sun	20
Atlanta	Fair	28
B. Aires	Shower	20
B.ham	Cloudy	15
Bangkok	Shower	33
Barcelona	Fair	16
Beijing	Cloudy	21
Belfast	Shower	13
Belgrade	Sun	19
Berlin	Drizzl	12
Bermuda	Shower	23
Bogota	Thunder	18
Bombay	Sun	33
Brussels	Shower	12
Budapest	Shower	[illegible]
C.hagen	Fair	[illegible]
Cairo	Fair	23
Caracas	Sun	29
Cardiff	Fair	14
Casablanca	Sun	24
Chicago	Fair	17
Cologne	Shower	12
Dakar	Sun	24
Dallas	Sun	26
Delhi	Sun	34
Dubai	Sun	29
Dublin	Fair	14
Dubrovnik	Shower	15
Edinburgh	Shower	13
Faro	Sun	23
Frankfurt	Shower	12
Geneva	Shower	9
Gibraltar	Sun	22
Glasgow	Shower	12
Hamburg	Shower	12
Helsinki	Fair	6
Hong Kong	Fair	26
Honolulu	Fair	28
Istanbul	Sun	18
Jakarta	Fair	31
Jersey	Fair	13
Johannesburg	Fair	25
Karachi	Sun	33
Kuwait	Sun	29
L. Angeles	Shower	16
Las Palmas	Fair	23
Lima	Sun	27
Lisbon	Sun	25
London	Fair	16
Lux.bourg	Shower	11
Lyon	Shower	11
Madeira	Fair	21
Madrid	Fair	22
Majorca	Fair	17
Malta	Sun	18
Manchester	Cloudy	15
Manila	Sun	33
Melbourne	Fair	20
Mexico City	Sun	29
Miami	Sun	28
Milan	Shower	15
Montreal	Rain	12
Moscow	Rain	8
Munich	Rain	8
Nairobi	Thunder	27
Naples	Shower	15
Nassau	Sun	28
New York	Fair	25
Nice	Fair	18
Nicosia	Fair	21
Oslo	Fair	11
Paris	Fair	14
Perth	Sun	29
Prague	Rain	10
Rangoon	Fair	36
Reykjavik	Rain	5
Rio	Fair	27
Rome	Shower	17
S. Frsco	Shower	10
Seoul	Sun	16
Singapore	Fair	32
Stockholm	Fair	9
Strasbourg	Cloudy	12
Sydney	Shower	22
Tangier	Sun	24
Tel Aviv	Fair	22
Tokyo	Fair	15
Toronto	Fair	11
Vancouver	Rain	6
Venice	Shower	15
Vienna	Shower	12
Warsaw	Shower	13
Washington	Sun	28
Wellington	Shower	19
Winnipeg	Fair	11
Zurich	Shower	9

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FINANCIAL TIMES

COMPANIES & MARKETS

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INSIDE

COMPANIES IN THIS ISSUE

CROSSWORD, Page 30

MARKET STATISTICS

Revlon group considers disposals

Takeover hopes boost cosmetic group

By Andrew Edgecliffe-Johnson in New York

Revlon, the cosmetics group behind brands such as ColorStay and Almay, confirmed yesterday that it was considering disposals following weeks of speculation about a $3bn-plus takeover.

News that the group had appointed advisers "to undertake a review of strategic alternatives" fuelled hopes of bidding interest from consumer products groups including Unilever, Procter & Gamble and Johnson & Johnson.

Revlon's shares rose $3⅞ to $23⅞ by lunchtime in New York, valuing the group's equity at $1.1bn. Any bidder for the whole group would also have to take on more than $2.3bn of debt.

The decision to consider the sale of "one or more businesses" is thought to have been made by Ron Perelman, the financier who controls 83 per cent of the company's stock.

A collapse in Revlon's share price last year coincided with trouble at other Perelman investments, including Sunbeam and Consolidated Cigar.

MacAndrew & Forbes, Mr Perelman's private holding company which bought Revlon in 1986, took the company public three years ago at $24 a share. In the same year, Marvel Entertainment, another Perelman company, went into bankruptcy.

Analysts said yesterday that Unilever, which owns Elizabeth Arden and Calvin Klein cosmetics, would find it difficult to make financial sense of a full takeover of Revlon. Procter & Gamble, they added, could struggle to buy the whole company because of the regulatory concerns about the overlap with its Cover Girl and MaxFactor brands.

Carla Casella and Steve Ruggiero, fixed income analysts at Chase Manhattan, said piecemeal disposals could get around the problem of overlapping product lines.

They identified three possible non-core candidates for disposal: Revlon's professional products business, which sells to salons; its personal care division, which sells deodorant and Flex hair care products; and its Charlie fragrance operation.

These businesses accounted for almost $1bn of the group's $2.25bn turnover in 1998, but analysts said the structure of the company would allow for other permutations.

Revlon has hired Goldman Sachs and Lazard Frères to advise it.

Revlon's shares sank as low as $12⅞ last year, after it warned of a collapse in third quarter earnings.

The company blamed weak demand in international markets such as Russia and Brazil and cuts in inventories by the large drug store chains in the US.

In January, it unveiled a major restructuring, saying it would take $80m in charges to cover 1,200 job cuts from its 14,000-strong workforce and other measures aimed at saving $15m-$20m this year and $30m-$40m a year in the longer term.

Lex, Page 18

BT pays $386m for 20% of SmarTone

By Alan Cane in London and Louise Lucas in Hong Kong

British Telecommunications yesterday added to its presence in the Asia-Pacific region by paying £240m (US$386m) for a 20 per cent stake in SmarTone, Hong Kong's third largest mobile operator.

The move brings BT's total investment in the region in the past six months to more than £750m. This includes the purchase of a 33 per cent holding in Binariang, a Malaysian operator of fixed and mobile services, and a 23 per cent stake in LG Telecom, a South Korean mobile operator. Overall, BT has more than a dozen Asia-Pacific alliances, partnerships and joint ventures.

Alfred Mockett, president and chief executive of BT Worldwide, said the SmarTone stake was a "breakthrough" that fitted exactly with BT's strategy for the region. It forms part of the company's new business model outside the UK involving "local initiatives with global credentials". The company is seeking stakes in businesses locally owned and operated but connected to the wider world by BT's global networking capability.

Mr Mockett said the aim was to influence rather than control, and in particular to play a part in the appointment of chief technology officers to ensure BT's partners used common transmission techniques.

BT's Asia-Pacific arm will be the second biggest shareholder in SmarTone, which has just under 500,000 subscribers. Sun Hung Kai Properties, the Hong Kong property developer remains the biggest shareholder.

BT is paying HK$25 a share, an 11 per cent premium to SmarTone's closing share price of HK$22.50 on April 1.

Mr Mockett said it was an opportunity BT could not ignore and "one window of opportunity into mainland China".

SmarTone, which has a turnover of HK$4.1bn in the year to June 30,1998, with profits of HK$1bn, is one of six mobile operators in Hong Kong.

Mr Mockett added that BT had spent about £3.5bn on European investments and could well spend an equivalent amount in the Asia-Pacific region.

Observer, Page 17

Cable and Wireless sues MCI over net purchase

By Alan Cane

Cable and Wireless' hopes of substantial growth from its newly acquired US internet business were dashed by the failure of the vendor, MCI WorldCom, to abide by the conditions of the deal, the UK group alleged in a lawsuit filed last week.

The lawsuit, put before Delaware District Court, claims C&W will lose significant revenues and profits this year as a result of the US operator's actions. C&W says an average of 84 new customers a month signed up for the service between October and December after it acquired the business, compared with 242 a month when it was still owned by MCI.

Last July, C&W paid $1.75bn for MCI's US internet business. MCI was forced to dispose of the business – backbone network, service providers and customers – by regulators as a condition of the deal which led to the creation of MCI WorldCom.

C&W moved quickly, completed the purchase and celebrated at having achieved at a stroke membership of the top tier of internet operators with special privileges and access to thousands of quality customers. Richard Brown, chief executive, said it had "bought the future".

But the lawsuit claims that MCI WorldCom's actions since the sale had cost it hundreds of customers, resulting in revenue losses worth tens of millions of dollars. Also, C&W's reputation for high-quality service had been injured and opportunities to cross-sell C&W products to its new customers had been lost, it said.

C&W is demanding that MCI WorldCom meet its obligations under the sale and is seeking unspecified damages for alleged breach of contract.

MCI WorldCom confined itself yesterday to saying that it would vigorously defend the action which was "without merit".

C&W alleges that MCI WorldCom warned C&W's new internet customers to expect degradation in their service and to disconnect from the UK company.

It says the US group failed to identify a significant number of its internet customers to C&W, "many of whom have complained publicly about lack of attention from C&W, before C&W was made aware they were customers".

There are complaints about MCI WorldCom's alleged failure to transfer internet staff to C&W as required.

Only 41 sales people were offered, for example, rather than 324 C&W expected, while only 18 out of 55 business marketeers were transferred and only one of 49 people needed for billing. C&W alleges MCI WorldCom failed to provide any experts in anti-spamming – the prevention of unwanted electronic mail.

MCI WorldCom was deficient in billing, C&W alleges, saying the group sent many bills late and to the wrong addresses: "When MCI WorldCom finally did send out bills, they were replete with errors - frequently four to five errors on a single bill."

C&W said yesterday that it was still keen to reach a "negotiated settlement" without going to court.

Shake up at Dickson Concepts

Hong Kong group's shares are suspended ahead of deal

By Louise Lucas in Hong Kong and Peggy Hollinger in London

Window shopping: Shares in Harvey Nichols have risen by 60 per cent since December — Malcolm Watson

Trading in Dickson Concepts' shares, the Hong Kong based luxury retailer which owns Harvey Nichols in the UK, was suspended yesterday ahead of a major deal to be unveiled today.

The group is understood to be planning to announce a broad restructuring which could see a change in ownership, but not ultimate control, of Dickson Concepts' 52 per cent stake in Harvey Nichols, the quoted luxury department store group.

Dickson Concepts said the announcement related to a major transaction "disposing of its non-Asian assets and a partial cash offer for the shares in the company is also being contemplated".

Analysts are expecting some assets, including Harvey Nichols, in west London's fashionable Knightsbridge district, will be shunted into private companies owned by the family of Dickson Poon, chairman and major shareholder of the retailer.

Harvey Nichols was purchased by Dickson Concepts for £51m ($82m) in 1991 and transformed from a struggling department store into a successful multi-site retailer and restaurateur. It is one of Dickson Concepts' more profitable operations.

Although the recent sharp slowdown in UK consumer spending has affected the Harvey Nichols' profit expectations, relatively resilient sales have helped the shares to rise by more than 60 per cent since December.

Dickson Poon's private companies have been used to make investments such as the 1997 HK$300m ($39m) purchase of Shiamas, a fashion retailer and distributor in Hong Kong, Taiwan, Singapore and Indonesia.

Moreover, a full sale of Harvey Nichols would jar with the group's ambitions as a global retailer. Those ambitions have already been thwarted by the failure to acquire Barney's, the US department store which filed for bankruptcy in 1996.

Meanwhile, ST Dupont, the French luxury goods company, suffered badly from the Asian financial crisis, and its profits last year shrank 83.6 per cent to FF9.5m ($1.6m) lowering the odds of a successful sale.

Analysts suggest that Dickson Concepts could sell the Harvey Nichols building and lease it back. Some estimate the property could be worth more than Harvey Nichols' market value of £100m.

Other brokers are not ruling out a move to take other parts of Dickson Concepts private, pointing out that trading in the stock has languished in recent months, bar a brief flurry of activity last month.

Dickson Concepts' strong Asian exposure and mostly high price tags made it vulnerable to the regional crisis. It has warned that a loss for the full financial year, which ended in March, is likely.

Olivetti warns Telecom Italia shareholders

By Paul Betts in Milan

Olivetti warned Telecom Italia shareholders yesterday it would make them "feel sorry" if they decided not to back its €60.4bn ($65bn) hostile bid for its much bigger Italian telecommunications rival.

Roberto Colaninno, Olivetti's chief executive, told an extraordinary shareholders meeting that if his bid failed Olivetti would mount a competitive assault against Telecom Italia, with one of its main aims to make Telecom Italia shareholders suffer.

Mr Colaninno's sabre-rattling came as Franco Bernabe, Telecom Italia's chief executive, hoped to woo his shareholders to approve his anti-takeover defences and industrial strategy at a key meeting on Saturday.

The privatised telecommunications group was also understood to be considering legal action against Olivetti linked to its rival's disclosure last week that it had sold 24m Telecom Italia shares in the market, and its arm-twisting campaign aimed at Telecom Italia shareholders.

Olivetti has written to several Telecom Italia shareholders pressing them to reject Mr Bernabe's defence plan, in what Telecom Italia legal advisers considered a breach of Italy's privacy laws.

With the takeover struggle reaching a climax, the two rival sides are waging an intense battle, taking newspaper advertisements in an attempt to swing the outcome – which financial analysts said remained too close to call.

Olivetti has continued to project itself as the new face of Italy's emerging free market capitalism.

But its opponents accuse the company and its chief executive of failing to "play by the rules" and misrepresenting facts to investors.

A senior Milan investment banker in the telecommunications sector dismissed Mr Colaninno's claims that he would bring Olivetti's innovative telecommunications strategy to Telecom Italia.

"Mr Colaninno had nothing to do with telecom strategy at Olivetti as he only became CEO in September 1996, when the Omnitel cellular business was already up and running and the Infostrada fixed line venture had already been started," he said.

But Mr Colaninno confirmed at yesterday's meeting – which approved a €2.7bn Olivetti capital increase to help finance part of the bid – that his company wanted to manage Telecom Italia and not merely buy a financial stake.

Olivetti wanted a minimum stake of 35 per cent in Telecom Italia, he said. Olivetti also said its 1998 consolidated net profits of L248bn ($137m) were in line with the indications it gave last year.

But without one-time gains from the sale of a 12.5 per cent stake in its Oliman telecommunications subsidiary to Mannesmann of Germany and deferred tax calculations, the group was in loss.

Lex, Page 18

ENGINEERING FINANCE CHIEF'S DEPARTURE PROMPTS RE-ORGANISATION OF GROUP

Kvaerner executive resigns

By Valeria Sköld in Oslo

Kvaerner, the troubled Anglo-Norwegian engineering and shipbuilding company, yesterday announced the departure of one of its senior executives, paving the way for a re-organisation to be announced next week.

Jan Magne Heggelund, 49, resigned as acting chief financial officer and chairman of Kvaerner's $2.5bn industrial products group, comprised of pulp and paper, Kvaerner Energy, and the equipment units of the former metals area.

Mr Heggelund's departure comes as the company is in the midst of selling the businesses he managed and prepares to unveil changes.

Kjell Almskog, Kvaerner's new chief executive as of December, will reveal details of a radical re-organisation of the company next week, which will exclude industrial products, as part of his plan to return the company to acceptable operating performance within two years following a NKr1.7bn ($219m) net loss last year.

The market had expected Mr Heggelund to step down after Mr Almskog was appointed chief executive only weeks into the prior reorganisation during October under Erik Tonseth, Kvaerner's former chief executive.

Mr Tonseth was ousted by the board that same month amid falling profitability and share price as the company struggled to rid its net interest bearing debt inherited from the acquisition of Trafalgar House in 1996.

Last year Mr Almskog revealed plans to review the company's operations and sell additional businesses to streamline the company.

Kvaerner is in talks with Voest-Alpine Technologie, an Austrian engineering group, over the sale of Kvaerner's metals equipment business and is looking for a buyer for Kvaerner Energy's hydro turbine power business.

Analysts are expecting the new Kvaerner to be smaller, but similar in structure to the old Kvaerner before it was reorganised by Mr Tonseth. That could mean possibly splitting engineering and construction back into two areas again, while retaining shipbuilding and oil and gas as its two other core areas. Total revenues in the new Kvaerner are expected to fall to about NKr55bn, compared to NKr83bn last year.

The announcement of the new Kvaerner comes two weeks later than planned, fuelling analysts' concerns that the company is considering issuing new shares to meet interest coverage requirements on loan covenants.

However Kvaerner said although it is open to a share issue at a later stage there was no need for such a move now.

FT and WSJ in Russian venture

By John Gapper, Media Editor

The Financial Times and The Wall Street Journal, which compete around the world in business journalism, are to join forces for the first time to help launch a daily business newspaper in Russia.

The newspaper, which is to be published later this year in Moscow and St Petersburg, will include articles from about 20 Russian journalists and will have a Russian editor, but will draw on material from the FT and the Journal.

Pearson and Dow Jones & Co, which own the two papers, said yesterday they had agreed to co-operate partly to share the risks of any new venture in Russia.

The two companies will each take a third of the equity in the newspaper, which will comprise one section printed on pink paper and another on white. The third shareholder will be the publisher of the Moscow Times, Independent Media.

They have jointly committed up to $10m over three years to bring it to break-even on daily sales of 30,000. The paper is to be edited by Leonid Bershidsky, with Anthony Robinson of the Financial Times as consultant editor.

Karen Elliott House, president of Dow Jones' international group, said it was very unlikely to lead to any co-operation between the FT and the Journal elsewhere.

The Financial Times signed a joint venture with Izvestia, the Russian daily newspaper in 1993, but ended this when the newspaper was taken over by Oneximbank, controlled by the Russian oligarch Vladimir Potanin.

David Bell, chairman of the FT Group, said the new venture would be "a newspaper for Russians and not a reworking of the FT or the Journal". There was a strong demand among Russians for reliable and independent financial information.

Independent Media was founded in 1992 by a group of Dutch investors and is now 35 per cent owned by VNU, the publisher, with 10 per cent held by Menatep group in Russia.

MERGERS EUROPEAN VOLUMES INCREASE

Deals at a high in first quarter

By Richard Rivlin

The levels of European mergers and acquisitions in the first quarter of 1999 has leapt to new records, according to research issued yesterday by the Securities Data Company.

The deal flow, which includes Olivetti's $77.9bn bid for Telecom Italia and the two-pronged bid by Banque Nationale de Paris to acquire Paribas for $19bn and Société Générale for $18.7bn, totalled a record $345bn in the first three months of 1999.

The previous record had been $196.3bn in the final quarter of 1998. The latest period also saw more than 2,700 deals completed, which is a new volume record.

J.P. Morgan, the international investment bank, was the leading adviser during the period.

It was involved in 18 deals that have a combined value of $33.4bn including the takeover of LucasVarity by TRW for $7bn.

This is a leap forward from the first quarter of 1998 when it was ranked sixth with $10.3bn of completed deals.

Klaus Diederichs, managing director of J.P. Morgan, said: "Although it is only the first quarter of the year we are pleased to be in the top three. There have been a lot of very large deals and people are only coming to those with the machinery to handle it.

"A deal in Italy is different from one in Germany and one in the UK and so on. You need people with experience who have built up a good position to complete them successfully."

Warburg Dillon Read, the investment bank owned by UBS, was ranked second with $19.5bn in completed deals.

Goldman Sachs, the international investment bank that is set to float, came third. It advised on 12 completed deals with a value of $19.1bn.

The figures also show the falling value of the UK market. The total value of deals in the UK dropped by nearly 15 per cent to $41.1bn. This compares with $47bn last year.

Schroders, the British investment bank, topped the list of advisers involved in UK deals.

It was involved in 10 deals valued at $15.1bn. Warburg Dillon Read came second with $12bn of UK deal flow. Morgan Stanley Dean Witter, the international investment bank, was third with $4.3bn of UK deals.

Slovakia to sell Globtel stake

By Robert Anderson in Prague

The Slovak government is planning to sell its 36 per cent stake in Globtel, the country's leading mobile telephone operator, which could allow France Telecom to win majority control.

The government, which is also issuing a third mobile licence and selling part of the country's fixed-line monopoly, is to choose an adviser for the sale next week from among five investment banks.

France Telecom, Globtel's strategic partner and owner of a 35 per cent stake, said yesterday it was studying the proposal with "great interest".

The company, together with a private investor who owns 29 per cent, will have first refusal. "Globtel is a very successful business. Of course we are interested," said France Telecom.

Globtel has become the leading GSM 900 operator in Slovakia – with 376,000 subscribers and a 63 per cent market share – through keen pricing and advertising.

After investing Sk7bn ($16.78m) so far and up to another Sk2bn this year, the company expects to record its first profit in 1999.

The mobile market in Slovakia has been amongst the fastest growing in Europe, with penetration (telephones per head) reaching 10 per cent after just over two years of GSM operation.

However, there is already some concern among the existing operators whether the market has room for a planned third licence.

Bids for the third operator, in the higher frequency GSM 1800 band, are due on April 15.

France Telecom, which also has stakes in mobile operators in Romania and Moldova in the region, is also considering participating in the partial privatisation of Slovak Telecom later this year.

Advisers for the tender are expected to be appointed later this week and the company – one of the last fully state-owned fixed-line operators in the region – should have a foreign partner by the start of next year.

It is not yet clear whether the government will ban France Telecom from participating because of its interest in Globtel.

Slovak Telecom owns 60 per cent of EuroTel, the rival mobile operator, with 40 per cent held by Media One and Bell Atlantic of the US.

Bruno Duthoit, France Telecom's general manager of Globtel, said: "France Telecom has quite a strong interest but in no case will they leave Globtel."

South Africa looks to Australia

A bid by DRD for Emperor Mines is just the tip of the iceberg, writes **Victor Mallet**

The recent hostile bid by Durban Roodepoort Deep (DRD), the Johannesburg-based gold mining company, for Australia's Emperor Mines is the latest sign of the growing enthusiasm for Australian assets among South African companies trying to increase their offshore earnings.

DRD, which specialises in marginal gold mines, wants to win control of Emperor's mine in Fiji as part of a strategy of expanding its operations into the Asia-Pacific region. Last month, DRD listed its shares on the Australian Stock Exchange, but it then suspended its bid for Emperor because of a legal challenge.

Mining is not the only sector to attract the attention of South African investors. Johannesburg-listed retailers such as Pepkor and Metro Cash & Carry, information technology groups such as Dimension Data and Datatec, leisure companies and financial services providers have all made big acquisitions. Smaller, unlisted groups have also been buying Australian businesses.

South African buyers are estimated to have spent nearly A$2bn ($1.25bn) in Australia since 1994, investment bankers say. "It's rare that a month goes by without a new story that some South African company has appeared on the scene," says Terry Goss of the Australian Trade Commission in Johannesburg.

There are cultural ties between white South African businessmen and their Australian counterparts, including the use of the English language and a shared love of barbecues, cricket and rugby. Many South African entrepreneurs have emigrated to Australia in the last 15 years.

But critics ask whether there is any business logic behind the recent buying spree. "I think it's because of the lifestyle and the South Africans seeking to emigrate to Australia," says one sceptical South African company chairman.

John Smelt, portfolio manager for Africa and the Middle East at Scottish Equitable Asset Management, is also wary. He says foreign investors can buy Australian equities directly if they want and are unlikely to be impressed by South African companies that have diverted their resources away from the African markets they understand.

"They are supposed to be doing this for investment reasons. I think they are mistaken," he says. "You also have to wonder about the quality of the Australian companies that they get offered."

Mr Smelt is particularly doubtful about the ability of retailers to perform in foreign markets. Several big investments in the sector include the A$140m acquisition of Country Road, the loss-making Australian clothing chain by South Africa's Woolworths (unrelated to other companies of the same name).

Those involved in the recent acquisitions, however, insist that it makes sense for South African investors to move into an English-speaking market that is larger than their own but not as big or competitive as the US and Europe.

"The economies are similar – southern hemisphere, same language, same culture," says Jake Andrew, head of the Australia desk at Rand Merchant Bank, which has advised many of the South African investors.

Mr Andrew says South African groups are showing a strong interest in a broad range of Australian sectors, including electronics and heavy engineering. South Africans in the stores sector have faith in their own retailing expertise and believe they will be able to turn round the companies they have bought.

Carlos dos Santos, chief executive of Metro Cash & Carry, which has operations in 18 African countries and in the Middle East, had some difficulties after last year's A$400m purchase of Davids, the grocery group. But he is confident that higher margins at Davids will improve Metcash's bottom line within two and a half years.

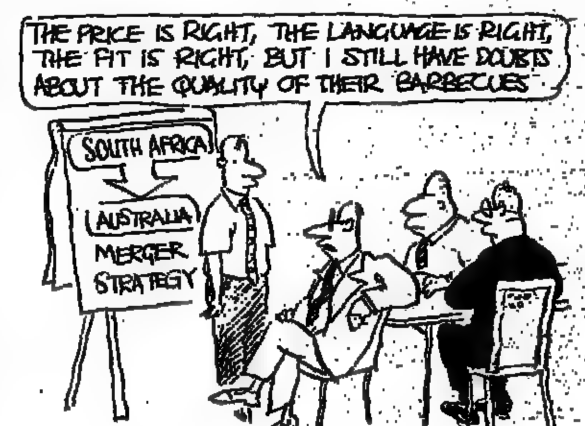
"In retrospect I'm very happy," he says. "And it's nice to have a currency that's not quite as soft as some of the African currencies."

Iscor to sell exploration business

Iscor, the South African steelmaker and minerals producer, said yesterday it was divesting all its international exploration to AfricWest Gold, an Australian company based in Perth, and would buy more than 50 per cent of AfricWest as part of the deal, **writes Victor Mallet in Johannesburg.**

Iscor's other interests in Australia include a 36 per cent stake in Ticor, which has a titanium sands, synthetic rutile and pigment operation near Perth. It also has a joint venture with Hancock Prospecting in the Western Australian iron-ore deposit at Hope Downs, where a feasibility study is under way on establishing a 15m tonnes per year iron ore mine.

AfricWest has two exploration licences in West Africa and will receive Iscor's gold exploration licences in Tanzania, Uganda, the South Pacific and Kazakhstan. Iscor will have the right of first refusal on developing any large find by AfricWest.



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ENTERTAINMENT CANADIAN GROUP SHARES SOAR ON NEWS OF INTERNET SALES VENTURE WITH GERMAN COMPANY

Seagram unveils alliance with Bertelsmann

By Christopher Parkes in Los Angeles

Seagram shares surged almost 7 per cent in New York yesterday morning after the Canadian group, the world's leading music distributor, announced a plan to join forces with third-ranked Bertelsmann to sell discs online.

The alliance of Seagram's Universal Music and the German group, which claim to account for 45 per cent of all music on the market, represents a belated effort to compete with established internet retailers such as Amazon.com, CDNow,and media rivals such as Viacom's MTV.

EMI and Sony have similar plans, and the world's top five distributors, which include Time Warner, are collaborating with International Business Machines in tests of internet distribution technologies to counter the threat from systems which allow listeners to download music free.

The link follows the completion of Seagram's $10.4bn acquisition of PolyGram, and confirms the group's eagerness to establish a presence in a sector of the e-commerce market which is predicted to grow to $4bn a year within five years from about $50m a year at present.

World music sales are now worth about $38bn a year at retail prices.

Edgar Bronfman Jr, Seagram chief executive, said last month he believed music's potential for growth through electronic commerce was part of the reason for investors' enthusiasm about internet stocks.

Closely-held Bertelsmann already has its own European internet online bookselling and music businesses and in partnership with America Online runs Europe's second-biggest internet services provider.

The venture, to be known as GetMusic, and directed initially at the US market, will be based mainly on a network of online fan clubs already started by Bertelsmann's BMG arm, which provide chat rooms, live broadcasts and interviews focused either on specific artists or musical types.

All will have links to an online store at getmusic.com, which will sell the catalogues of the two partners and also feature titles from other distributors.

Channels will include Peeps Republic, dedicated to R&B, Twang This! for country fans, Rock Universe and Connect2Music for "adult contemporary" listeners.

Mr Bronfman claimed yesterday that GetMusic was a "major step in building the interactive music channels of the future".

Thomas Middelhoff, Bertelsmann chairman, said the partners had the critical mass to create the internet's premier music destination.

Always Coca-Cola, seldom fizz

Shares languish as soft drink markets become saturated, writes **Betty Liu**

In the world of Coca-Cola, every employee is a marketer, every ounce consumed a success, and every can an advertisement. Behind the sweet, bubbly beverage lies a huge, well oiled marketing machine – and that, many industry executives say, is what made the soft drink giant a global success.

But for all its marketing campaigns, Coca-Cola has failed to satisfy its most important consumers: investors. The company's shares have languished over the past two years and show no sign of perking up. Each time bad news trickles in from overseas, the share price sinks further as investors fear profits – 75 per cent of which are accrued abroad – will take a hit. While the company sells as much on its image as its product, the soft drinks industry is viewed by many investors as stale and unfashionable, particularly for a stock market dazzled by young, hip internet start-ups.

"[The soft drink industry] is becoming a low-growth business. It's really a saturated market," said one New York-based money manager. "Coca-Cola can talk all it wants about increasing the number of ounces sold every year, but there's probably no place left to sell Coca-Cola. They can continue marketing campaigns, but it's a relatively mature market."

Indeed, Coca-Cola turned in one of its worst share performances in 1998, managing a paltry 0.5 per cent gain against a 16 per cent rise in the Dow Jones Industrial Average and a 26.7 per cent jump in the S&P 500. Even with a 25 per cent decline over the past year, many investors say the share price is overvalued at about $60.

For a company that has made shareholder value its creed, and numbers the legendary Warren Buffett among its investors, Coca-Cola has been strangely quiet on the subject of its stock performance. In the 1998 annual report, Douglas Ivester, who succeeded the legendary Roberto Goizueta as chairman, noted that the stock had fallen from its July high on comments from analysts that Coca-Cola's global strategy was passé. Undaunted, Mr Ivester vowed the strategy would continue, in the words of one of Coca-Cola's slogans, "now and always".

However, it was the company's overseas exposure that prompted investors to bail out in the first place. Just last week, Coca-Cola said sales volume would decline in almost every part of the world in the first quarter, as global economic turmoil hit consumption. The news caught analysts by surprise and prompted a series of downgrades on its stock.

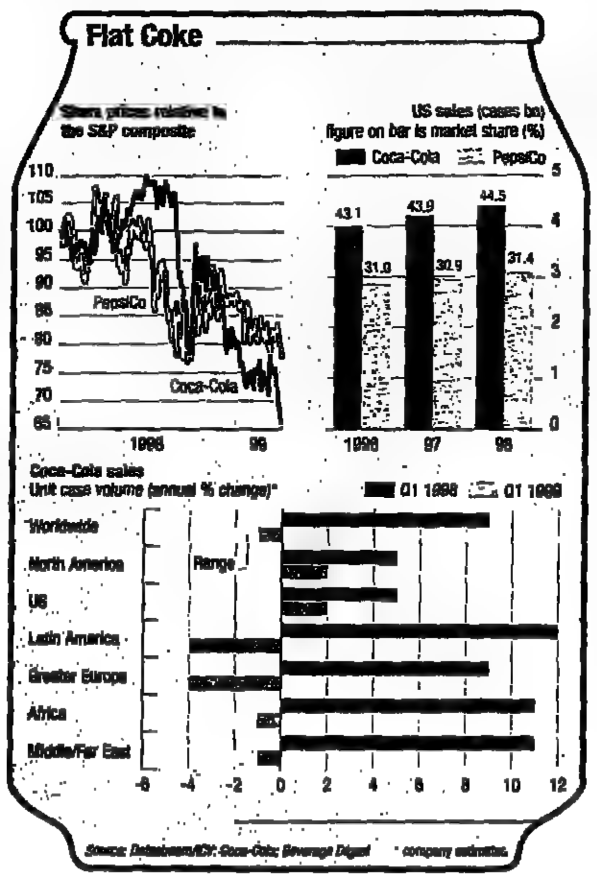
All of Coke's difficulties stem from the overseas economic environment, says Douglas Lane, beverages analyst at Merrill Lynch. "The problem is that the weakening of the economies is broad-based. Coke used to benefit from a portfolio effect, which meant that if Mexico was down, for example, Brazil was ahead and balanced everything out. Now, however, the number of good markets balancing the bad markets is becoming fewer and fewer."

Perhaps most disturbing is the struggle for sales and market share on Coca-Cola's home turf. North American sales volume is expected to rise only 1 to 2 per cent in the first three months of this year, compared with analysts' predictions of 4 per cent growth. While some attribute this slowdown to price increases, a growing number of analysts say rival PepsiCo is to blame.

Coca-Cola, it seems, has grown too comfortable at the top. Analysts say the company is betting it will stay number one in the US, simply because it has for so long. Meanwhile, PepsiCo has launched aggressive advertising campaigns; introduced a one-calorie cola drink, PepsiOne, popular with weight-conscious consumers; and last week spun off its bottling arm.

In one of its most creative campaigns in years, PepsiCo is blanketing the US with catchy "Joy of Cola" television commercials, featuring celebrity voices lip-sung by a cherub-faced girl.

Coca-Cola, meanwhile, is running with its seven-year-old "Always" slogan and releasing less flashy commercials pivoted around the classic "real thing" image.



Already, PepsiCo has nabbed a bigger piece of the pie. The company's market share in 1998 rose 0.5 percentage points in the US, its biggest percentage rise in years, according to Beverage Digest. Moreover, its stock surged 12.8 per cent last year.

While PepsiCo faces the same maturing market as Coca-Cola, analysts say its biggest growth opportunity may lie in luring US Coke drinkers over to its products, rather than going head-to-head in newer, less developed markets. Indeed, PepsiCo, which has a long line of salty snacks and soft drinks, derives only 12 per cent of its profits from outside the US.

Analysts say Coca-Cola's desire to play safe in its home market may eventually cost it more market share and deepen investor concerns. The company's marketing machine will have to start turning faster if that is not to happen.

Suzuki buys small stake in GM

By Nikki Tait in Chicago and agencies

Japan's Suzuki Motors announced yesterday that it had bought a small stake in General Motors, the largest car and truck maker, saying that the holding was designed to bolster the partnership between the two companies.

GM tripled its own stake in the Japanese company to about 10 per cent last year, and the two groups have talked of jointly developing small cars and passenger vehicles for developing countries, particularly in Asia.

Suzuki also has an agreement with Opel, GM's Germany-based subsidiary, and first formed a business alliance with the US company back in 1981.

The new Suzuki crossholding was bought at a cost of about Y4.5bn ($37.2m), and amounts to about 0.07 per cent of the Detroit-based carmaker's equity.

News of the Suzuki stake emerged in Tokyo as GM released its US sales figures for March. These showed light vehicle sales for the month at 452,477, down 2.2 per cent on the same month a year ago.

GM's performance in March 1998 had been particularly strong, but most analysts still expected the company to post either flat year-on-year sales or a small increase.

Car sales were higher but truck sales nosed down, a trend blamed partly on supply factors.

Over the past week, most other car and truck makers have posted strong US sales for March, with Ford and the Chrysler brand showing double-digit year-on-year increases.

Cost cuts help Alcoa advance in first-quarter

By Nikki Tait in Chicago

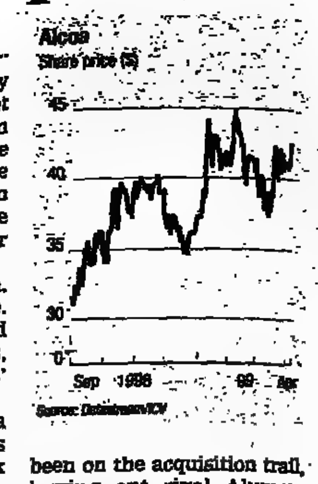
Cost-cutting and efficiency measures helped Alcoa offset the slide in aluminium prices and the effect of the Brazilian crisis, allowing the world's biggest aluminium producer to post a surprise increase in first-quarter earnings.

Net income was $221.1m, up from $209.9m last time. Earnings per share slipped from 62 cents to 60 cents, compared with analysts' forecasts of 54 cents.

Alcoa shares, which are a constituent of the Dow Jones Industrial Average, stock market index, rose more than 4 per cent in early trading, climbing $1 13/16 to $42⅞.

Analysts have seen Alcoa as a rare bright spot in the troubled aluminium sector, with its "Alcoa Business System" programme delivering cost-savings and efficiency gains, which in turn have allowed the company to buck falling metal prices.

Last July, the group told analysts it believed it would be able to squeeze a further $1.1bn out of its cost-base over the next three years, mainly through organisational changes and procurement processes.



The company has also been on the acquisition trail, buying out rival Alumax, for example, and Spain's Inespal.

Paul O'Neill, chairman, said yesterday that without the ABS programme and various "growth initiatives", Alcoa would have been looking at a $110m drop in year-on-year income in the first quarter.

The result was achieved on sales of $3.98bn, up from $3.47bn a year earlier.

Other big North American aluminium companies, which are due to report later this month, are expected to show weaker results in the first quarter, compared with the same period a year ago.

Duke digs in for Endesa Chile

By Mark Mulligan in Santiago

Duke Energy, the US power group, vowed yesterday to fight for control of Endesa Chile, the country's largest electricity generator, amid intensifying speculation about a bidding battle.

The company has offered $2.1bn for a controlling 51 per cent stake in the Chilean company, which as one of Latin America's biggest power groups is considered well placed as a platform for expansion in the region.

Duke's bid, which is contingent on Endesa shareholders voting today to lift investor limits from 26 per cent to 65 per cent, has fuelled stock market talk of potential counterbids, including from Endesa Spain, which took control of Enersis, Chile's largest distributor, this week.

Through Enersis, the Spanish group holds 26 per cent of its Chilean namesake. It is committed to supporting today's board proposal for a change to shareholding rules, although some analysts have not discounted a last-minute change of tactics.

Bruce Williamson, chief executive of Duke Energy International, indicated yesterday the US group would raise its 260-peso-a-share bid if it were contested. "We've spent a lot of time and money contacting [Endesa Chile] shareholders to convince them that this is a good deal," he said. "If someone comes in with another offer, our message would be that we intend to win."

Local analysts were divided on whether a two-month campaign by the US group to encourage Endesa Chile's 48,000 shareholders to support the rule changes would pay off.

The head of one Santiago stockbroking firm said: "There is still some doubt among the people I've been talking to about Endesa Spain's support." Others say Duke can count on the Spanish group's 26 per cent, as well as 26 per cent from pension fund groups, and a majority of foreign investors in ADRs, accounting for about 15 per cent.

Boeing aims to sell information services arm

By Christopher Parkes in Los Angeles

Boeing is in negotiations with unidentified companies interested in buying its information services division and expects to name a buyer during the second quarter.

The US aerospace group, which recently announced plans to either "fix" or dispose of unprofitable and non-core operations, said it believed Boeing Information Services would have better growth opportunities if owned by a specialist information technology company.

BIS is based in Virginia and has a staff of 1,200 in the US. It installs and manages computer networks and databases, and is an important services supplier to the US Air Force and the National Aeronautics and Space Administration.

BIS annual revenues are reported to be $300m a year.

Boeing's operations, dogged by difficulties in manufacturing and marketing commercial aircraft, are being subjected to a strict examination, and more disposals and reorganisation are expected.

Having withdrawn from the market for light commercial helicopters, the group recently announced a plan to set up a new engineering services division. Boeing Airplane Services will operate in California, Kansas and Washington state, and will provide conversion, retrofitting and repair services to passenger and cargo carriers.

In early New York trading Boeing shares were up $¼ at $34¼.

TELECOMMUNICATIONS JAPANESE GROUP TO BOLSTER EQUIPMENT DIVISION WITH TWIN-TRACK GROWTH STRATEGY

Matsushita to enter mobile phone base station market

By Michiyo Nakamoto in Tokyo

Matsushita, the Japanese electronics group, aims to strengthen its telecommunications equipment business by entering the mobile phone base station market and increasing its global market share for handsets.

It plans to increase its share from under 9 per cent to at least 15 per cent by the end of 2000. The group, which manufacturers mobile phone handsets at its subsidiary, Matsushita Communication Industrial, aims to increase its share of the GSM market in particular.

Matsushita is already the leading mobile handset supplier in Japan, where it enjoys a 35 per cent market share. In the Japanese market, size and weight tend to determine the popularity of handsets to a larger extent than in other markets.

The company has been able to take advantage of its advanced technology, which has enabled it to supply some of the smallest and lightest handsets, says Yasuo Katsura, director of the personal communications division of MCI.

Close relationships with operators and the ability to tap the Matsushita group's vast research and development resources in Japan, have also helped.

However, the Japanese market uses a system known as PDC, which is not used in any other market. In global terms Matsushita trails the top three manufacturers, Nokia, Motorola and Ericsson.

"We are working very hard to move from Japan's top manufacturer to one of the top three in the world by 2000," says Takashi Kawada, president of MCI.

To that end, MCI has targeted the European and other GSM markets, in particular, for future growth. The GSM standard is expected to make up to 54 per cent of the total world market of 200m handsets by 2000.

To achieve its goal in Europe, Matsushita will expand sales of its UK production facility from 4.6m in 1998 to 7m this year and streamline its distribution for faster delivery to the continent.

Matsushita also aims to enter the infrastructure business where it does not have much of a presence. It will first aim to supply NTT Docomo, Japan's largest mobile communications operator, with base stations for its next generation digital system, expected to be in operation in the spring of 2001.

The company, which has a proven track record in handsets, is a relative newcomer to the base station market, where giants such as Japan's NEC, Ericsson and Lucent Technologies dominate.

It is focusing resources on developing base stations and handsets for the third generation mobile system, W-CDMA, which it expects to grow into a Y9,000bn ($74bn) market between 2000 and 2005. MCI plans to invest Y60bn in the years up to 2000 in research and development of W-CDMA technology.

A TALE OF TWO AIRLINES – THE ASIAN FINANCIAL CRISIS HAS HIT ALL THE REGION'S OPERATORS, BUT SOME HAVE COPED WITH IT BETTER THAN OTHERS

Cathay Pacific struggles to maintain control

Stringent cost-cutting has made it difficult to maintain standards, writes **Rahul Jacob**

Cathay Pacific's cost-cutting drive has been making for more than the occasional tense moment on its aircraft. It is not safety that is at issue, but other bare necessities of the good life at the front of the plane.

"It's unheard of that you could run out of chocolates, but we do. We're often scrounging between first class and business," says a senior flight attendant.

She says the airline has begun to leave so little margin for error on the number of desserts it puts on its aircraft for business class passengers that she has begun to worry when anyone asks for seconds.

Antony Tyler, Cathay's director of corporate development, admits that the economy drive in late 1997 and early 1998 may have been overdone. "Business class is very important and it's a big mistake to lose those customers for a fillet steak here or there," he says.

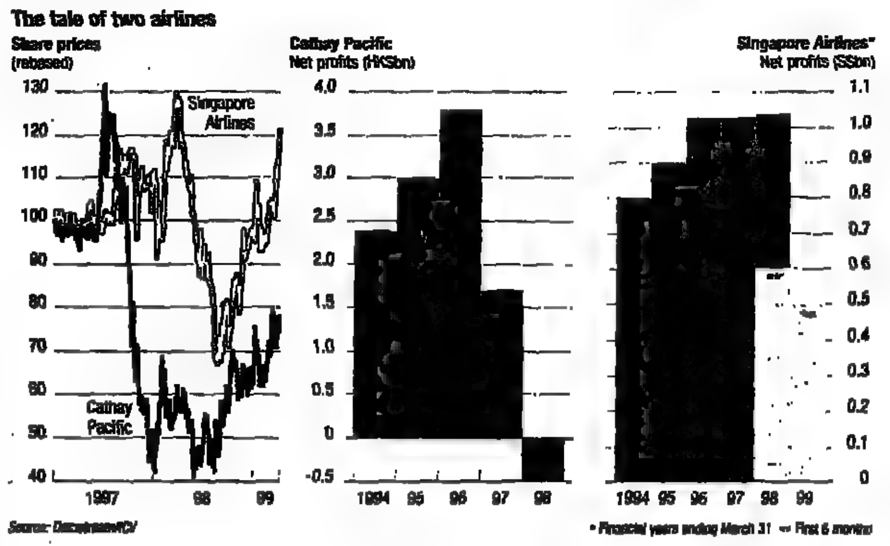
But after years of bumper profits, Cathay's management may still have one of the tougher balancing acts in the Asian aviation business. They have higher costs than their regional competitors at a time when average fares are falling rapidly.

The Asian financial crisis has made matters worse. Last year, as cut-throat competition between airlines forced fares down and more local companies banished their employees to economy class, Cathay's yields, or average fares, plunged 19 per cent.

The group's profit margins before interest and taxes and exceptional items have been steadily declining, from 15.5 per cent in 1992 to 1.5 per cent in 1998.

Cathay has responded in a number of ways, including withdrawing its older aircraft to drastically reduce operating costs. It also embarked on a high profile battle to bring down labour costs.

After bitter squabbling with the union earlier this year, the airline succeeded in getting most flight attendants to agree to a new contract with longer working hours.



Source: Datastream/ICV

* Financial years ending March 31 — First 6 months

Last month, after a stand-off with the air crew officers' union, Cathay wrote to the pilots directly seeking substantial pay cuts in return for share options.

Cathay says its senior pilots are among the best paid in the world: between 1979 and 1989 its air crew received annual raises on average 16 per cent above the rate of inflation.

The demand for salary cuts has raised plenty of hackles, but as one pilot puts it, "I haven't heard the word strike used yet."

It may not come to that, but zeroing in on employees' wages and allowances is a slippery slope in the airline industry because service inevitably suffers.

This is even more true in Cathay's case because it is most frequently compared with Singapore Airlines, whose cabin crew is known for service that sometimes borders on the obsequious.

Singapore Airlines has not had to cut staff salaries, which were lower than Cathay's to begin with.

It has no debt and has been able to reduce costs, thanks to a government edict that cut contributions to the national pension plan for all corporations and by the Singapore airport's decision to lower landing fees.

Cathay may be flying against the wind, but it is also being creative in reacting to the slowdown in business. It was a founder member of the new OneWorld alliance along with American Airlines, British Airways, Qantas and Canadian Airlines.

It also introduced a creative new frequent flyer programme, with tie-ins with other airlines and companies such as Citibank, and has also increased its transpacific flights as demand for regional flights have plunged.

But everyone else in the region is doing the same and now there is overcapacity on the long-haul routes as well. That will hurt average fares, which are already in a long-term downward spiral, declining by a couple of percentage points every year.

"The environment for an Asian airline operating in a high-cost centre is horrible," says John Hetherington, an analyst with Paribas Asia Equity.

Singapore Airlines keeps the champagne corks popping

The carrier has fared the downturn well, reports **Sheila McNulty**

As the regional financial crisis intensified this past year, Singapore Airlines upgraded its first-class cabin with individual suites of fully reclining beds with inflatable mattresses.

It added a cheese-board service and gourmet coffees to business class while starting a free flow of champagne in economy class.

In addition to the S$500m (US$288m) effort to introduce new products and services, the airline extended its frequent-flier programme to all classes and announced an agreement to pay A$500m (US$314m) to acquire a 50 per cent stake in Ansett Holdings, which owns Australia's second largest airline.

The airline's underlying strength lies in the fact that it is not overly dependent on the region, has no net borrowings and has close to S$2bn in cash and investments. And although the government has a majority stake, it has managed to maintain its competitiveness.

"Singapore has been able, because of its strengths, to continue with its long-term development plans while most other airlines have been in crisis-management mode," says Ian Wild, regional airline analyst at SG Securities. Its biggest regional competitor, Hong Kong's Cathay Pacific, for example, has been forced to save costs every way possible, he adds.

Not that Singapore Airlines has been unaffected. It reported virtually flat earnings of S$1.04bn in the year to March last year. Its overall yield fell 5.1 per cent year-on-year for the six months to end-Sept. 1998.

While it is easy to dismiss Singapore Airlines' success as due to its 54 per cent government stake, analysts point out it is commercially run. Because it cannot just service a domestic market – there are no domestic flights – Singapore Airlines must venture out to compete with global market forces.

"You cannot protect it like you can a bank," says Seah Hiang Hong, airline analyst at Kim Eng Securities. The only government assistance is in negotiating landing rights, he adds, something many governments, including Hong Kong's, provide.

That said, Singapore Airlines has gained from government efforts to make the city-state's airport more competitive amid the crisis. All airlines flying into Singapore receive a 10 per cent rebate on landing fees. And the government is allowing a 10 per cent rebate on corporate tax and a 10 per cent cut in employer contributions to the national pension fund.

Singapore Airlines has also taken its own steps to cut costs. It froze wages, capped bonuses, and is conducting a routine programme that involves staff submitting ideas on improving efficiency. The last exercise, in 1986, saved more than S$30m in recurring annual costs.

Singapore Airlines also deferred the delivery of 11 aircraft to moderate capacity increases and adjusted routes and aircraft size to match supply with demand.

"Crisis or no crisis, we are an international airline, competing on the world stage," says Michael Tan, the airline's executive vice president.

"Not all of our competitors are in Asia. We have to compete with airlines in America and Europe, and they are continuing to enhance their own products. We must forge ahead and reassert our leadership in high-quality service and product innovation."

China Telecom to be split into four companies

By James Harding in Shanghai

China Telecom, the de facto state telecommunications monopoly, is to be broken up into four separate companies, in a a step towards greater competition in the Chinese market.

Wu Jichuan, the telecoms minister, said yesterday that China Telecom will be broken into four entities: fixed line, mobile telecommunications, paging services and satellite communications.

"The breaking up of China Telecom is aimed at smashing the telecommunications monopoly in China and introducing competition to set up a fair and orderly market," Mr Wu said.

Yesterday's statement from the official Xinhua news agency underlined how China's telecoms minister has bowed to pressure from Zhu Rongji, the prime minister, to embrace market competition and confirmed the plans to restructure China Telecom.

The official announcement to split up the industry monolith also serves as further evidence of Mr Zhu's commitment to open the telecoms industry, one of the issues that has long held up China's bid to join the World Trade Organisation (WTO).

The announcement came as US and Chinese trade officials were seeking to resolve differences over telecoms liberalisation as well as the opening of other market sectors to enable a last minute agreement on a market access package that could pave the way for Chinese membership of the WTO.

China Telecom, which has assets estimated at about RMB560bn ($67.6bn), accounts for about 95 per cent of the country's telecoms market, according to yesterday's report. The only other operator authorised to offer nationwide telecommunications services is China Unicom, which has assets of RMB130m.

China Telecom has come under severe criticism in the state media, as consumers have complained about the expensive and inefficient service of the near monopoly telecoms provider. In a recent poll, 72 per cent of people said China Telecom should be broken up, arguing that competition might be the answer to high prices and poor service.

IBJ unveils plan to halt threat by western brokers

By Naoko Nakamae in Tokyo

The Industrial Bank of Japan, one of Japan's leading banks, has unveiled a three-pillar securities strategy to defend its share of Japan's lucrative investment banking market from western brokers.

Masao Nishimura, IBJ president, also left the door open for a closer relationship in the securities business with Nomura, the country's largest brokerage, through further tie-ups in the future.

The main pillar of IBJ's strategy is its brokerage arm, IBJ Securities, which will concentrate on wholesale clients. It will also be responsible for the group's overseas securities business.

IBJ considerably strengthened its second pillar – a newly formed brokerage, which has combined New Japan Securities and Wako Securities, two second-tier brokerages. The merger, which created Japan's fourth largest securities house after Nomura, Daiwa and Nikko, will focus on domestic middle-tier retail clients. IBJ and IBJ Securities have a combined stake of 25 per cent in the company.

The final pillar is a derivatives joint venture with Nomura. "It will bring together Nomura's expertise in equity and debt derivatives, and our strengths in credit derivatives," said Mr Nishimura.

IBJ's announcement highlights the pressures on the Japanese securities industry as Big Bang reforms continue to be rolled out. The liberalisation of equity commissions in October is expected to inflict damage on small and medium sized brokers who depend on commission revenues.

While IBJ's strategy has created a potentially awkward situation where its securities arms will be in direct competition with Nomura, Mr Nishimura brushed aside concerns. "We've agreed to compete in the middle-tier retail market. The New Japan-Wako merger took place because without radical restructuring, they might have gone under [in a fully liberalised market]. It had nothing to do with Nomura."

"For the time being, [the IBJ group and Nomura] have decided to conduct their securities business separately, but I don't know about the future. If other deals [with Nomura] are necessary, we'll consider them," he said.

Masao Nishimura, ready to consider further deals with Nomura AP

In the meantime, IBJ and Nomura have also linked up in the pensions arena to create a record-keeping systems management joint venture. The move reflects the attention the market has recently been receiving. Many financial institutions believe that the creation of a US-style 401k defined contribution pensions market will provide them with immense opportunities, as the market is due to be liberalised in 2000.

Mr Nishimura said that Goldman Sachs, the US investment bank, had informally decided to participate in the joint venture. Goldman yesterday said they were "seriously considering the IBJ-Nomura proposal", but had not made a final decision.

IBJ and Nomura have already attracted a host of big names to join in their venture. These include Dai-ichi Life, Japan's second largest life assurer, and close IBJ business ally; Société Générale, the French brokerage; Sanwa Bank, Toyo Trust and Banking, Sakura Bank and Mitsui Life. Fuyo business group members, Fuji Bank and Yasuda Life will also take part, while other companies who are expected participate include State Street, the US bank, NTT, Hitachi and Fujitsu.

Bad loans hit Philippine banks

By Tony Tassell in Manila

Two of the Philippines' leading commercial banks have reported depressed 1998 audited results, reflecting the impact of the Asian economic crisis.

Philippine Commercial International Bank, the subject of intense takeover speculation, reported a decline in net profit from 3.62bn pesos to 2.67bn pesos ($69.2m) in 1998 after a heavy increase in provisions for non-performing loans.

Such provisions rose 46 per cent last year from 2.37bn pesos to 3.46bn pesos. Analysts said that while the bank had taken a conservative approach to provisioning, the headline net profit still came in slightly above expectations.

Ismael Pili, analyst with Indosuez WI Carr, said the bank's audited statements also indicated that PCI Bank's non-performing loan ratio had dropped to 8.0 per cent, a marked improvement from the 12 per cent reported at the end of the third quarter.

Meanwhile, Philippine National Bank has reported a sharp dive into the red with a loss of 7.25bn pesos in 1998 compared with a 1.14bn pesos profit the previous year. The audited loss was even greater than the 5bn pesos unaudited deficit disclosed in January.

PNB, a government-controlled bank, is widely considered one of the largest problem areas in the Philippine banking system, and had earlier disclosed unaudited profit and loss statement figures. PNB said the loss reflected a rise in loan-loss provisions from 1.95bn pesos in 1997 to 8.88bn pesos for 1998.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on [illegible] — Pool Prices for Trading on [illegible]

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	10.08	29.45	29.20	0.75
0100	9.27	29.45	29.20	0.75
0130	10.08	53.14	52.89	0.75
0200	10.50	53.14	52.89	0.75
0230	17.00	34.30	34.05	0.75
0300	17.00	34.30	34.05	0.75
0330	10.27	34.30	34.05	0.75
0400	10.27	26.00	25.75	0.75
0430	10.27	18.99	18.74	0.75
0500	10.27	18.99	18.74	0.75
0530	9.73	13.50	13.50	0.00
0600	11.00	10.15	10.15	0.00
0630	11.00	19.65	[illegible]	0.75
0700	12.84	19.65	19.40	0.75
0730	14.59	19.65	19.40	0.75
0800	14.59	19.48	19.23	0.75
0830	17.33	53.58	53.32	0.75
0900	18.67	53.59	53.34	0.75
0930	18.67	45.66	45.41	0.75
1000	19.08	46.90	46.65	0.75
1030	19.05	46.91	46.67	0.75
1100	19.06	46.68	46.45	0.75
1130	19.07	45.70	45.47	0.75
1200	19.07	54.06	53.83	0.75
1230	19.07	54.05	53.81	0.75
1300	19.07	54.53	54.29	0.75
1330	19.06	54.00	53.76	0.75
1400	19.05	43.18	42.93	0.75
1430	18.86	35.52	35.27	0.75
1500	17.33	35.52	35.27	0.75
1530	17.33	35.51	35.26	0.75
1600	17.33	35.52	35.27	0.75
1630	17.33	46.24	46.00	0.75
1700	17.33	46.98	46.77	0.75
1730	17.33	46.57	46.39	0.75
1800	17.33	55.83	55.79	0.75
1830	16.49	62.40	62.65	0.75
1900	10.35	62.60	62.77	0.75
1930	10.35	62.15	62.21	0.75
2000	10.35	59.67	59.53	0.75
2030	20.00	44.54	44.31	0.75
2100	20.00	43.16	42.91	0.75
2130	17.00	53.57	53.32	0.75
2200	15.82	53.57	53.31	0.75
2230	15.82	19.48	19.23	0.75
2300	15.82	19.18	18.93	0.75
2330	14.59	19.18	18.93	0.75
2400	12.84	10.00	10.00	0.00

Deutsche unveils Australian sale

By Gwen Robinson in Sydney

Deutsche Bank's Australian arm is today expected to publish details of its proposed sale of the Australian investment banking and funds management operations of Bankers Trust.

Deutsche Bank's decision to proceed with the sale, after earlier backtracking, paves the way for a planned change in its Australian management – including the appointment of the first Australian to head Deutsche Bank Australia.

Deutsche Bank, which is completing its $10.1bn global takeover of Bankers Trust, has changed its mind at least twice on the future of BT's Australian operations. Last month, it reversed a decision to retain BT Funds Management's successful Australian operation and allow local management to run it alongside the local operations of Deutsche's Morgan Grenfell global funds management arm.

Instead, Deutsche Bank said it would sell both BT's funds management and investment banking businesses together or separately.

Amid complex negotiations to bed down the global Deutsche-BT merger, the decision to sell off all BT's Australian operations generated heated debate between BT and Deutsche Bank executives, as well as within Deutsche's top ranks.

BT's Australian funds management business, with more than A$41bn (US$26bn) of assets under management, is one of the most successful in Australia's growing market, ranking second to AMP in terms of total market share. The group's investment banking operations, however, have drawn little interest in a market that analysts commonly describe as "overbanked". Estimates have ranged from A$300,000 upward. In a single sale, however, BT's combined Australian operations could fetch as much as A$2.5bn-$3bn, analysts said.

Deutsche Bank has denied reports that it had decided to link BT's Australian investment banking and funds management businesses for a single sale. While a single sale would be preferred, a "very serious offer" for the funds management operation would be given serious consideration, Deutsche Bank said. Australia's top four banks as well as some US investment banks are understood to have expressed interest in BT's funds management operations.

Deutsche Bank would not comment on the reasons for the two-week delay in the information memorandum for the sale.

The sale has cleared the way for changes to Deutsche's Australian management. From June, Maurice Newman, the chairman, would be replaced by deputy chairman Clive Smith, while Klaus Albrecht, managing director, would be replaced by Ken Borda, head of institutional banking and the first Australian to run Deutsche's local operation. Mr Newman would resign as chairman and take up a consultancy role with the bank's Asian operations, working on the merger of BT's Japanese funds management with Deutsche Morgan Grenfell in Japan.

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Gold Fields links with Driefontein

By Victor Mallet in Johannesburg

Shareholders in Gold Fields and its associated company Driefontein Consolidated, one of South Africa's richest mines, have agreed to combine the two to form an enlarged Gold Fields that will be the world's second biggest gold mining group.

The agreement ends years of wrangling over ownership of Driefontein – once dubbed the "Northern Ireland" of the South African gold industry – and puts an end to protests by the mine's minority shareholders.

Minorities have recently complained that their interests were being ignored as Gold Fields and the Anglo American conglomerate negotiated with each other over Driefontein's future. Of Driefontein's minority shareholders, 77 per cent voted in favour of the deal yesterday.

As part of a series of transactions, AngloGold, Anglo's gold mining arm and the world's biggest, has given up its fight to retain a share of Driefontein and will sell its 21.5 per cent stake to Gold Fields. An earlier proposal to buy out minorities and split the mine 60:40 between Gold Fields and AngloGold has been dropped.

"Driefontein was, until today, the last significant captive of the old South African mining house system," said Chris Thompson, Gold Fields chairman. "This transaction brings Driefontein on to the world stage."

Tom Dale, Gold Fields managing director and Driefontein chairman, said the new company had "a more competitive profile than either of its predecessors".

The new company will produce more than 4m ounces of gold a year at an average cash cost of about $200 an ounce, and has proven and probable reserves of 96m ounces.

The deal agreed yesterday to create an R12bn ($1.94bn) company involves Driefontein taking over Gold Fields and then renaming itself Gold Fields.

AngloGold says it will use the R1.3bn proceeds from the its Driefontein stake sale to expand its other gold interests. Bobby Godsell, AngloGold chief executive, says he is satisfied that his company does not need Driefontein shares to ensure co-operation at the nearby Western Deep Levels ore body.

Emergency treatment pays off for P&U

The revamped pharmaceuticals group is finding favour, writes **Tracy Corrigan**

Pharmacia & Upjohn became a byword for disastrous mergers in the pharmaceuticals industry after the 1995 marriage of two of the industry's also-rans failed to deliver.

By the time Fred Hassan was brought in from American Home Products in May 1997 to rescue the struggling company, it was, Mr Hassan notes, "in some danger".

But last year Mr Hassan produced the required turnround, achieving the double-digit earnings growth he had promised, and pledging more of the same. The share price has recovered from a low of $28⅝ in April 1997 to a recent high on March 29 of $63⅞. And analysts are enthusiastic: last week Salomon Smith Barney put the stock on its "buy" list.

Mr Hassan, a 52-year-old native of Pakistan, took the risky option of P&U rather than wait for the top slot at AHP and has "reinvigorated the company", says Mariola Haggar, pharmaceuticals analyst at Deutsche Bank Securities.

Alex Zisson, analyst at Hambrecht & Quist, says Mr Hassan faced two main problems: a very old pipeline and far-flung operations. The first problem is difficult to change quickly in a pharmaceuticals company, where new drugs take years to develop. But Mr Hassan moved rapidly to tackle the second, along with the cultural problems that accompanied the geographical dispersal.

When he took over, P&U had operational centres in Kalamazoo, Michigan (the old Upjohn), Milan and Stockholm (the Pharmacia legacy), which he admits had turned into "fiefdoms", as well as a small headquarters in Windsor, near London.

"It was almost like three companies held together by a shell office in Windsor," Mr Hassan explains.

He rapidly identified a "lack of unity of management", exacerbated by a lack of transparency and a culture of shifting blame.

At his first board meeting he proposed that a main business centre – responsible for global research and development and systematic global marketing – should be consolidated in one location.

"I really like to take about six months to come out with plans, but this was a patient in serious need of attention," he recalls.

New Jersey was chosen because "the global pharmaceuticals industry has migrated in that direction in the last few years", says Mr Hassan. P&U was also keen to increase the proportion of profits earned in the US – then, at one-third of the total, well below the industry norm of about half.

The concentration of drug companies in New Jersey also made it easier to attract high-calibre staff to what is still a second-tier company.

Analysts identify Mr Hassan's ability to inject fresh blood into the company as one of his successes. Five of the eight executive committee members were hired since his arrival. He also expanded the US sales force, reversing a cycle of cutting costs on the back of falling revenues.

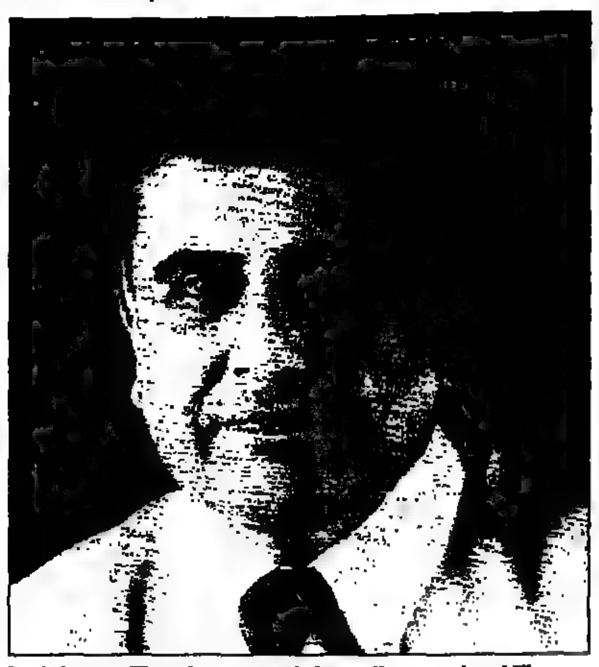
While the process of pushing new products through the pipeline is necessarily slow, Mr Hassan looked for ways of improving focus on existing products. At the time "around 60 per cent of our promotional resources were allocated against a long tail of products".

Mr Hassan introduced a "freshness index" to measure the percentage of sales coming from products introduced in the past five years – it has risen from 17 per cent at the end of 1997 to 22 per cent at the end of 1998, and he says the company is closing in on its goal of 30 per cent by 2000.

The P&U chief has also "done a good job of selling off non-pharma businesses" such as nutrition, says Mr Zisson. There have been six divestitures, leaving the company with only 3 per cent of its business outside pharmaceuticals. Its diagnostics business will either be sold or developed in-house, Mr Hassan says.

In the longer term, he believes he can improve P&U's pipeline as he did at AHP after joining in 1989. This, according to analysts, is the main challenge he still faces in convincing investors that recent earnings growth is sustainable. But some early paybacks are possible.

A cancer drug available for some time in Europe is on fast-track approval in the US, albeit rather late in the drug's life-cycle, and a new



Fred Hassan: 'There is no second chance if you go downhill'

antibiotic is also close to coming to market. These are both in-house developments that have not been effectively managed.

Coming from the acquisitive culture of AHP, Mr Hassan is also keen to look at potential targets, and points to the company's strong balance sheet.

Meanwhile, the turnround still has some way to go. "I keep telling our employees we cannot declare victory. We have lots of possibilities yet to make ourselves best-in-class." Despite conventional wisdom that says medium-sized companies will be eaten up by consolidation, "we don't believe size is the only way to succeed", though the company will move up the league tables, he predicts.

But he adds: "I believe very strongly that if you are a mid-sized company, the quality of management is even more important because there is no second chance if you go downhill."

NEWS DIGEST

BANKING

UBS aims for SFr3bn from property sale

UBS, the Swiss bank, yesterday re-affirmed that plans are under way to sell hundreds of its properties in Switzerland, a move analysts seen as designed to free up equity capital. A Swiss daily newspaper said the move would raise up to SFr3bn ($2.02bn), a figure on which the bank declined to comment.

Analysts said the significance of the money to be raised by the sales would be diminished because the bank plans to rent back a significant portion of the property. UBS confirmed that the bank plans to sell roughly 300 properties out of a total of about 500 in its portfolio.

"The bank intends to sell around 300 parcels in three years from 1998 to the end of 2000," he said. He added the total real estate portfolio was backed by over SFr1bn in equity capital.

UBS reported at end-1998 a carrying amount for bank premises and other properties of SFr7.7bn. Banks must hold capital to back certain risks, including property holdings where value can fluctuate with the market. The banking group would prefer to sell properties it intends to lease back itself to a single buyer.

Foreign investors are expected to be keen to use the opportunity to gain a foothold in the Swiss property market, analysts said. UBS said the sale would also reduce the costs of maintaining the property. UBS sees an overlap of about 170 offices and other administrative properties following consolidation of operations as a result of its merger. **Reuters, Zurich**

NEW ZEALAND

Contact may raise NZ$1.1bn

The New Zealand Government stands to raise up to NZ$1.1bn ($583m) from selling the remaining 60 per cent in electricity generator Contact Energy in a public float this month. This compares with the NZ$1.2bn paid by Californian based Edison Mission for the controlling, or cornerstone, 40 per cent stake last month.

The government yesterday set an "indicative" range of between $NZ2.40 and NZ3 a share for its remaining stake. Edison Mission paid NZ$5 a share. Government ministers say the price discrepancy is because Edison Mission was prepared to pay more for the key shareholding stake.

Critics, including opposition MPs, say that the pricing differential is because the government is seeking to win votes by promoting a share issue on highly favourable terms to "mum and dad" investors before this year's election.

Some 250,000 people have responded to a widespread advertising campaign asking them to pre-register their interest in buying shares. Contact generates 28 per cent of New Zealand's electricity through a mixture of hydro-electricity, geothermal and gas facilities. It also has 22 per cent of the retail electricity market, and owns 43 per cent of the major offshore Maui field.

Some 360m shares are to be floated, and Bill Birch, Treasurer, said he expected strong international interest. **Terry Hall, Wellington**

TELECOMMUNICATIONS

Telsource defends deal terms

Telsource, a consortium of Swisscom and the Dutch telecoms company KPN, yesterday publicised the 1995 contract that made it the strategic partner of SPT Telecom, the Czech telecom monopoly, in order to defuse damaging speculation about the terms and its winning bid.

"There is nothing mysterious about it," said Bessel Kok, chief operating officer of SPT. "We stick to contracts. We have delivered what we promised in 1995." KPN and Swisscom, which together own 33.5 per cent of SPT, have rejected allegations that they paid money to parties in the former government of Vaclav Klaus in order to win the $1.32bn privatisation deal. The contract has been heavily criticised by Antonin Peltram, the minister of transport, for giving Telsource operational control until 2001 when the state still owns 51 per cent. **Robert Anderson, Prague**

MINING

Nickel prices hit Eramet

Eramet, the French mining group, has reported a downturn in annual profits in figures coloured by a sharp decline in the price of nickel.

The company posted net attributable 1998 profit of FFr282m (€43m, $46m) on turnover of FFr7.23bn, versus a pro forma FFr389m on turnover of FFr7.82bn the previous year. Operating profit fell from FFr811m to FFr234m. An unchanged dividend of €1.14 a share is proposed.

Earlier this year, the group announced a reorganisation that would considerably expand its special steels business and cut to about 30 per cent the stake held by French public sector interests. **David Owen, Paris**

COMPANIES & FINANCE: UK

BICC makes $443m sale to General Cable

By Thorold Barker

BICC, the UK engineering group, is to sell its energy cables business to General Cable Corporation of the US for £275m ($443m), leaving it to focus on Balfour Beatty, its construction arm.

The price was at the top of analysts' expectations and the shares, which have underperformed the FTSE All-Share index by 87 per cent in the past five years, rose 11 per cent to 104p.

The sale, which completes BICC's exit from energy and telecoms cables after the sale of its communications cable business last month, will result in a loss on disposal of £370m this year, mainly from a £295m goodwill write-off. It also includes £25m of liabilities which will be retained by BICC.

Wassall, the hybrid industrial conglomerate and venture capital group which had a 90p-a-share bid for the group rejected last month, responded by saying it had made a renewed indicative offer of 110p to the BICC board on April 1, which was not put to shareholders.

Alan Jones, BICC chief executive, said the board had considered the revised offer and decided it could not accept it.

Wassall ruled out a hostile bid and said 110p was the highest price it could justify on its current information, but did not admit defeat. It said: "We could put an offer of 110p on the table tomorrow. We hope that shareholders will agree that 110p in cash is worth more than the current position."

The sale is conditional on approval at the annual meeting on May 5.

Energy cables made pre-tax profits, excluding exceptionals, of £25m in 1998 from turnover of £1.1bn.

Mr Jones said there was no sign of an improvement in the energy cable market, which had been dogged by overcapacity and the sale would remove the earnings uncertainty which had been hanging over the group. BICC has taken charges of more than £200m restructuring its commodity cables businesses in the past four years.

He admitted the deal would be earnings dilutive in the short term, until the proceeds were reinvested and savings of £5m-£10m began to come through next year from the closure of regional offices and some head office reductions.

The sale proceeds would be used to reduce debt, leaving it with net cash of about £50m.

The deal would make General Cable, spun off from Wassall two years ago, number three in the global electrical and communications cable industry.

BICC was advised by Schroders and General Cable by Merrill Lynch and ING Barings.

A split that could signal the last gasp of the old guard

Reed Elsevier has just lost one new chief executive before he even started . . . **John Gapper** examines six years of board tensions

It is not the best job advertisement. After six years of board tensions that have occasionally flared into outright conflict, the Anglo-Dutch publisher Reed Elsevier is once again seeking a chief executive. It has also lost the services of Pierre Vinken, one of the architects of the 1993 operating merger of Reed International and Elsevier, who resigned as a non-executive in protest at the way an earlier search had been conducted.

The culmination of the search was due this week with the announcement that Jonathan Newcomb, chairman and chief executive of Simon & Schuster, the US publisher, would become Reed Elsevier's first sole chief executive.

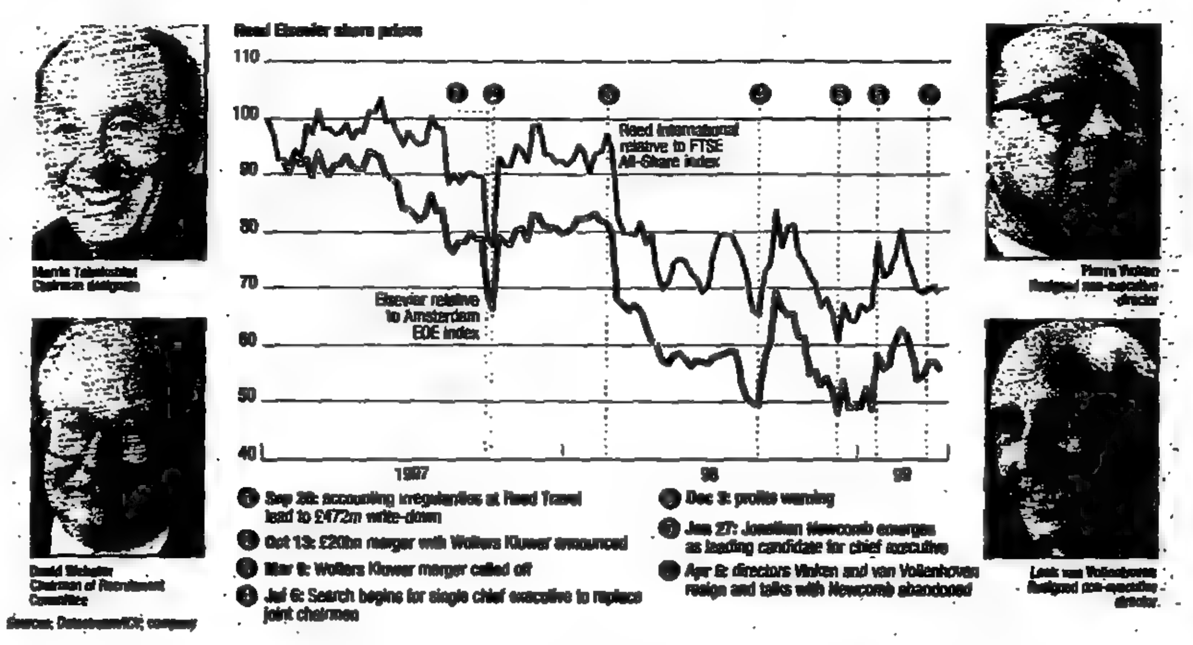
Instead, Mr Newcomb turned the job down and Mr Vinken not only resigned but said David Webster, chairman of the UK retailer Safeway, who led the search committee, should have fallen on his sword.

Reed Elsevier now finds itself in a potentially unstable position, with the possibility that its merger with Wolters Kluwer, called off last year, could now be revived as a reverse takeover by Wolters.

If Reed Elsevier was more in favour with investors, a slip like losing its main candidate for chief executive might be forgiven. But the stock market is also concerned about its specialist publishing operations.

Nor can the acrimonious resignation of Mr Vinken and Loek van Vollenhoven – another non-executive – on Tuesday be dismissed as a freak event. For Mr Vinken, a 73-year-old former brain surgeon, in many ways personified the Dutch half of the company. He was due to step down next week at Elsevier's annual meeting, as Reed Elsevier finally moved to a unified board and management structure; but instead of accepting the usual plaudits on his retirement, the joint statement issued by Mr Vinken and his fellow non-executive on Tuesday pulled no punches, saying the company should have found itself a chief executive by now, having started the search last August. "In our view, [Mr Webster] should have drawn the necessary conclusions, and resigned. Despite our urging, he has declined to do so. We were not prepared any longer to accept responsibility for this state of affairs," they said.

A tear in the paper



The row is the latest of a series of events that have led to underperformance in the shares of both holding companies. For the past two years, investors have become increasingly dismayed at slowing earnings growth, partly caused by mishaps, such as the overstatement of travel title circulation figures discovered in 1997, and partly by the need to invest in electronic distribution of data.

Some close to the company argue that Mr Vinken's departure has lanced a boil, and will clear the way for Reed Elsevier to emerge from the compromise created in the 1993 merger.

"Corporate governance committees say retired executives should not serve as non-executives because it only ends in grief, and Pierre and Loek prove that in spades," says one person close to the board.

Reed and Elsevier were brought together by Mr Vinken and Peter Davis, chief executive of Reed International, after a long dalliance between Elsevier and Pearson, owner of the Financial Times, broke down in 1991.

But Mr Davis resigned in June 1994 after falling out with Mr Vinken, who built Elsevier as a scientific publisher in the 1970s and 1980s with Mr van Vollenhoven after choosing publishing over neurosurgery.

Those close to Reed Elsevier say that despite Mr Vinken's creativity as a publisher, he had become a destructive force within the group, though there was no clear-cut split on Reed Elsevier's board until Tuesday. All the members had agreed on the need to move to a unified structure, and Mr Vinken was a member of Mr Webster's nominations committee.

But Mr Newcomb's decision to reject the job after prolonged talks with Reed Elsevier was the final straw for Mr Vinken.

He was also staring in the face the reality that the old Elsevier was about to disappear. After next week's meeting, the Dutch company's board will be identical to that of the merged group.

Mr Webster, who has acted as chairman of Reed Elsevier pending the arrival of Morris Tabaksblat from Unilever next week, has played a key role in implementing some of those board changes over the past few months.

Mr Vinken's final act of frustration with the changes in his company may prove the last gasp of the old guard at Reed Elsevier.

The problem facing the board is to find a chief executive to lead a new generation of executives.

RESULTS

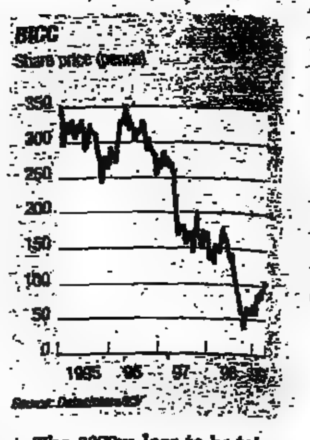
		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Beattie (James)	Yr to Jan 31	104.8	(103.6)	10.1	(9.26)	18.8	(15.3)	7.75	June 21	7.25	10.75	9.75
Blockleys	Yr to Dec 31	9.44	(10.4)	1L♠	(0.234)	3.21L	(0.88)	0.15	July 1	0.3	0.3	0.45
Citadel Φ	Yr to Dec 31 ☆	[illegible]	(1.36)	3.05	([illegible])	7.81	(0.33L)	1.7	May 28	0.5	3	0.5
Clinton Cards	Yr to Jan 31	208.5	(152.8)	15.84♠	(7.88)	17.54†	(9.32)	[illegible]	June 7	2.25	4.8	3
Cornwell Parker	6 mths to Jan 31	41.1	(46.8)	2.11	(3.31)	[illegible]	(5.3)	1.5	May [illegible]	1.3	-	4
Dewhirst	Yr to Jan 15 ★	380.2	(363.6)	23♠	(31.4)	12.11	(16.72)	4	July 1	4	5.45	5.45
Emerald Energy	Yr to Dec 31	2	(0.549)	[illegible]L	(0.629L)	0.05L	(0.08L)	-	-	-	-	-
Friendly Hotels	Yr to Dec 27	77.8	(60.8)	14.7♥	(7.8♥)	54.5†	(25.5)	4	Aug 13	3.7	6.3	5.9
Bolton	Yr to Dec 31	41	(39.1)	4.25	(3.85)	14.32	(12.92)	3.44†	May 6	3.13	5.64	[illegible]
Intermediate Cap	Yr to Jan 31	-	(-)	28.8	(22.6)	39.7	(33.1)	13.7	May 21	12	19.8	17.4
Moss Bros	Yr to Jan 30	153.7	(147.7)	18.1	(19.6)	12.23	(15.62♥)	4.2	June 1	4	6.3	6
Oasis Stores	Yr to Jan 30	111.8	(92.9)	13	(10.4)	16.71	(13.12)	5.6	July 23	5.1	8.25	7.5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
M Currie Pacific	Yr to Feb 28	117	(138.2)	0.98	(1.02)	2.34	(2.49)	[illegible]	June 18	1.91	1.91	1.91
Thompson Clive	Yr to Dec 31	539.8	(455)	0.682	(0.572)	4.6	(4.1)	3.8	June 3	3.8	[illegible]	[illegible]

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ☆Comparatives for five months. ★Comparatives restated.

COMMENT

BICC



BICC has got its retaliation in first against Wassall by finding a buyer for the part of the group that most interested this predator. But the price achieved for its energy cables operation only looks good if it is assumed this cyclical business will not recover. BICC argues that prices remain soft, so it is better to secure 11 times operating profits now. The deal would also transform its sickly balance sheet, leaving about £50m in the bank. But under other circumstances, a price of a quarter sales and well under half net assets would be nothing to shout about. The £370m loss to be taken on this disposal would represent a final embarrassment for the erstwhile British Insulated Callender's Cables. What remains is another grand old name of British industry, the construction group Balfour Beatty, and a couple of small businesses.

But shareholders need to take a careful look at the ongoing beast. Market values for the better construction companies, such as Amec or John Laing, amount to only 20 per cent of sales. On this basis, Balfour Beatty would be worth £400m-£450m. The other parts of the group would have to be valued at one times their £220m turnover to justify the current share price. Wassall seems to have missed its chance to buy BICC at the bottom, and it clearly saw most recovery potential in the cables side. Only investors with a strong stomach for construction risks should stick with the new animal.

Gerry Robinson

Gerry Robinson, Granada's chairman, has been guilty of fat-cattery in the past, notably in demanding a ridiculously juicy fee for shortening his notice period in the event of a takeover. And he is well paid by UK standards, receiving a salary of £940,000, which increased a little too steeply for most tastes last year. But his sale of £6.6m of the leisure group's shares, for a profit of more than £5m, is no cause for investor outrage. Mr Robinson is not cashing out of Granada altogether. He retains about £4m in shares and valuable but unvested options worth a further £5m. So although already fantastically rich, he retains some incentive to create value for shareholders. Since Granada's shares have risen nearly 800 per cent since he became chief executive, outperforming the market by 185 per cent, the fuss is overdone.

Otto Versand buys Freemans

By Peggy Hollinger

Philip Green, the entrepreneur who led the group of investors that bought Sears for £549m ($884m) in January, yesterday began unbundling the acquisition with the sale of Freemans, the mail order division, to Otto Versand of Germany.

The price was not disclosed but is believed to have been £155m-£170m, substantially short of the more than £350m Littlewoods bid for the group in 1997 before trading worsened.

Together with the £140m raised from the sale of the financial services business, Creation, arranged by previous management, the sale proceeds will go a long way to paying off the £450m in borrowings made to support Mr Green's bid.

Sears will now consist of a retail business which had sales last year of £750m, and a property division valued at more than £134m.

For Otto Versand, the world's largest mail order company and number three in the UK through its Grattan subsidiary, the acquisition strengthens its hold on the British market from 8 to 15 per cent. The deal marks the end of a pursuit which has lasted more than three years.

هكذا من الأصل

EURO PRICES

EQUITIES

All eyes on ECB for interest rates cut

EUROPEAN OVERVIEW

By Khozem Merchant

Euro-zone markets closed up, with traders focused firmly on the European Central Bank as it meets today to decide whether to cut interest rates.

Interest-rate sensitive stocks such as retailers, banks and consumer companies improved on the speculation, though other factors such as continuing talk of consolidation also contributed to their firmness.

The FTSE Eurotop 300 index of Europe's leading stocks rose 9.85 points, or 0.77 per cent, to 1,284.20. The FTSE Ebloc index of shares in euro-zone countries gained 18.95, or 0.64 per cent, to 2,986.19. Other strong sectors included banks, up 2.01 per cent, insurance, 2.31 per cent better, and mining, up 3.79 per cent.

The food and drugs retail sectors were among the highlights, rising 2.33 per cent. German retailer Metro and Karstadt rose by two per cent and six per cent on news of consolidation. Mail order retailer Otto Versand announced the acquisition of *Freemans, the mail order* arm of British retailer Sear. Otto Versand becomes the UK's third biggest mail-order company, with a market share of 15 per cent.

Karstadt's price also rose sharply after it said sales in March had grown year on year by a better-than-expected 10 per cent.

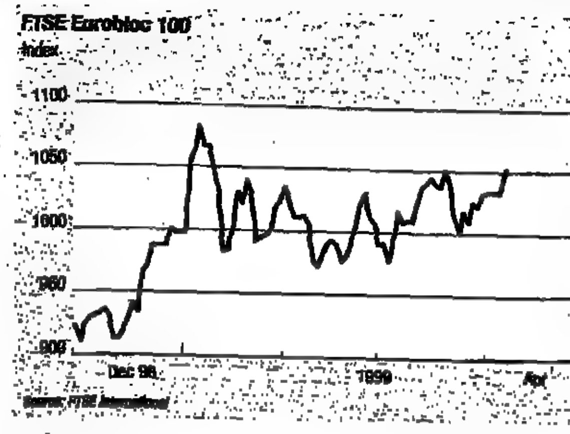
Analysts said this was an early sign that the recent wage increases and *improving consumer confidence* were feeding through into spending. Ian Scott at Lehman Brothers said there had been less evidence to date of German consumer confidence translating into spending than, say, in France.

Consumer confidence in France is high, according to data. French retailer Promodès, up €6 to €582.50, and Casino, up €9 to €82.10, are indicative of the trend.

Mr Scott said: "The outlook for consumer spending is good. There have been gains in real wages and this ought to be supportive, especially if interest rates are cut." However, Martin Brooker at Crédit Lyonnais Securities said some retail stocks are "expensive defensives". He added: "Some big retailers are revising earnings downwards and only those that restructure are likely to outperform in the medium term."

One fear in Germany is that speculation over a rise in VAT may hit retailers.

FTSE Eurobloc 100



Source: FTSE International

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Apr 07 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1284.20	+0.77	+9.85	1.90	5.01	1327.73
FTSE Eurotop 100	2986.19	+0.64	[illegible]	[illegible]	11.53	1074.84
FTSE Eurobloc 100	1051.44	+0.19	+2.04	1.92	1.39	1068.75
FTSE EuroMid	1237.00	+1.18	+14.48	2.76	6.82	1268.98
FTSE EuroMid Eurobloc	1210.43	+0.44	+5.33	2.52	4.01	1240.19
FTSE EuroMid Ex UK	1264.42	[illegible]	+10.92	2.35	3.71	1291.70
FTSE Eurotop 300 Regions						
Eurobloc	1312.22	+0.22	+2.87	1.86	2.00	1342.52
UK	1257.33	+1.61	+19.93	2.15	10.21	1331.55
Europe Ex-Eurobloc	1266.68	+1.34	+16.71	1.94	7.94	1320.63
Europe Ex-UK	1299.92	+0.30	[illegible]	1.76	2.10	1326.47
FTSE Eurotop Industry Sectors						
RESOURCES	1013.35	[illegible]	[illegible]	2.75	3.69	1064.21
Mining	985.34	+3.79	+35.24	[illegible]	21.37	1009.98
Oil & Gas	977.19	-0.01	-0.15	2.71	2.62	1004.30
BASIC INDUSTRIES	1126.52	+0.70	+7.79	2.55	6.95	1157.96
Chemicals	858.97	+0.93	+7.88	2.46	2.68	876.30
Construction & Bld Matls	1055.67	+0.75	+7.81	2.23	3.06	1088.15
Forestry & Paper	931.18	-1.60	-15.14	4.15	38.88	1013.06
GENERAL INDUSTRIALS	1174.30	+0.56	[illegible]	2.33	5.80	1205.29
Aerospace & Defence	602.37	+1.72	[illegible]	2.06	3.84	617.42

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CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

BONDS

INTEREST RATE SWAPS

EURO-ZONE BONDS

Euro bond yield curve

Euro against the dollar

Source: Interactive Data/FT Information

OTHER INDICES

FTSE EUROTOP 300

MORTGAGE FUNDS

Fannie Mae to issue new bond series

By Khozem Merchant

Fannie Mae, one of the world's largest issuers of non-government debt, is to launch a new series of callable bonds designed to tap investor demand for greater liquidity.

The first of the callable bonds – which allow an issuer to redeem bonds before the maturity date at an agreed price on a given date, though at a premium paid to the holder – will be issued this month.

Franklin Raines, the new chairman and chief executive officer of Fannie Mae, said the so-called Callable Benchmark Notes will "significantly increase liquidity in our callable debt securities".

He said one of the reasons behind the initiative was that in a low interest rate environment, callable bonds would offer a yield advantage. This would help win over European investors' scepticism towards callable products.

"Investors are having to look for more risk, either on credit or interest rate, to achieve their goals. Callables will be more attractive than going out on the credit structure," he said.

Investors will be offered four structures under the initiative. These are: five-year maturity, non-call for the first two years; five-year, non-call for three years; 10-year, non-call for three years; and a 10-year note with a non-call element for five years.

Fannie Mae, the largest lender of mortgage funds in the US, will issue at least one such note or a re-opening of an existing issue each month, with a minimum size of $500m, and a threshold of $100m for a re-opening.

The maturity and size of the debut issue later this month is still undecided. J.P. Morgan, Credit Suisse First Boston and Merrill Lynch will lead manage the first issue.

"There has been a big premium on liquidity in recent years. This is not a change in our funding strategy; it is a change in structuring liquidity, in response to investors' demands," said Mr Raines.

The initiative builds on the success of the agency's non-callable benchmark note programme launched in January last year.

Since then the agency has issued 11 benchmark notes and eight add-ons to existing bonds totalling $55.25bn.

Earlier this month the agency announced the exchange of $6.22bn in selected outstanding non-callable securities for its benchmark notes maturing in 2004, bringing the total outstanding volume of benchmark notes to $61.92bn.

"This initiative will allow the agency to expand both its investor base for callable debt and the secondary market, and ultimately lower funding costs for callable debt," said one banker.

Fannie Mae has been issuing callable debt for more than a decade, primarily in 10-year maturities and out of its medium-term note programmes.

Investors await ECB rate decision

BENCHMARK BONDS

By Arkady Ostrovsky in London and John Labate in New York

Government bond markets were mixed yesterday with most euro-zone investors adopting a "wait and see" attitude ahead of today's decision by the European Central Bank on interest rate.

Most analysts believe that the ECB will cut rates by at least 25 basis points today – the first time it would have done so since the launch of the euro.

This is expected to bolster the short end of the bond market and strengthen the currency. Jeremy Hawkins at the Bank of America said the sentiment in the market, however, is one of hope rather than of certainty.

Market analysts say leaving interest rates unchanged, however, could be damaging for the single currency. A cut would also indicate the ECB is prepared to use monetary measures to stimulate European growth.

An interest rate cut in the euro-zone would also have a significant effect on euro outsiders such as Sweden and Denmark, said Mr Hawkins. European bond prices fell slightly yesterday, led by the 10-year German bund future closing 0.06 lower at 115.03.

The UK gilts market was also quiet as investors awaited the results of the Bank of England's monetary policy committee today. The consensus is that the Bank will cut interest rates by at least 25 basis points. The 10-year gilt future rose 0.04 117.99.

US Treasuries were mixed in early afternoon trading, with buying at the long end of the curve. The 30-year benchmark bond was $\frac{1}{8}$ higher at midday at 96$\frac{1}{8}$, sending the yield lower to 5.511 per cent.

Shorter-term issues fell back, with the two-year note off $\frac{1}{16}$ at 99¾, yielding 4.941 per cent and the 10-year note down $\frac{1}{8}$ at 97$\frac{1}{32}$, yielding 5.128 per cent.

"There were a number of small positives that helped the market move up at the long end," said Kevin Logan, senior market economist at Dresdner, Kleinwort Benson in New York. Among the factors were bullish morning comments by Federal Reserve officials as well as a Federal Reserve coupon pass.

In the afternoon $7bn in 30-year inflation-protected Treasury issues were expected to be auctioned, although it had little impact on overall market activity.

Japanese government bond prices rose sharply yesterday as a result of a better than expected auction of 20-year JGBs, according to Sally Wilkinson at Daiwa Europe. She said the auction of Y600bn in 2.6 per cent JGBs was almost twice covered compared with 1.62 times cover of the previous auction of the 20-year paper. The 10-year JGB future leapt 82 ticks to 132.83.

Ms Wilkinson said the success of the auction was particularly significant as it came at the beginning of the new fiscal year when investors allocate their funds for the next six months.

"Japanese investors have nowhere else to put their money and the government is still managing to support the bond market," she said.

The Bank of Japan is meeting on Friday but it is not expected to announce new measures for supporting JGBs given the present strength of the market.

Multicanal lifts morale with $175m offering

NEW ISSUES

By Edward Luce, Capital Markets Editor

Multicanal, an Argentine cable company, yesterday furnished more evidence of the return in investor risk appetite with a $175m offering.

The 10-year bond – puttable at five years – was Multicanal's first international offering since March 1998 and one of the first corporate bond issues to come out of Latin America since the Brazilian currency crisis in January.

However, other borrowers, including Endesa and YPF, carried an investment grade credit rating whereas Multicanal is rated at Ba3/BB+. The bond, offered at a yield of 13¼, comes in advance of sovereign issues by Uruguay, Chile, Costa Rica and possibly even Brazil. The Korea Development Bank is also expected to tap the markets in the near future.

NTL, the UK-based telecommunications company, was set to price its £200m high-yield offering last night at a yield of between 9⅞ and 10 per cent – roughly in line with the yield offered on the higher-rated Telewest offering last week. Proceeds of the 10-year issue will refinance a more expensive bond issued by Diamond Cable, which was recently acquired by NTL.

Elsewhere, Sofinca, a French bank majority-owned by Credit Agricole, launched a floating rate bond priced against the overnight Eonia rate in euros. An official at Credit Agricole, lead manager, said it was launched to satisfy French and German money market demand for such products.

Credit Agricole also led a €300m offering by Total. An official said the offering had been aided by a two or three basis point improvement in the euro swaps rates yesterday morning. The spread widened marginally after launch.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Federal Home Loan Banks	3bn	5.125#(f)	99.905	Apr 2001	0.05	+25(4¾%Mar01)	Deutsche Bank
Fannie Mae(a)*	2-3bn	5.25¢	(a1)R	Jan 2009	0.15R	(a1)(Nov08)	Lehman/JPM/MSDW
BNG(b)	250	5.25	98.56R	Jan 2004	0.25R	+62(4¼%Feb04)	CSFB/Salomon SB
Republic of Turkey(c)	200	12.00#	undisct	Dec 2008	undisct	-	Chase/Salomon SB
Barclays Bank plc(d,m)‡	200	(d1)	100.217	Apr 2009	0.35	-	Barclays Capital
Multicanal(g)	175	13¼#	99.553	Apr 2009	undisct	-	BankBoston/CSFB
LBW Capital Markets(h)	100	6.00	100.0522	Mar 2005	0.275	+58(4¼%Feb04)	CSFB
BayW UK Capital(i)	100	4.25	96.545	Feb 2002	0.225	+60(4¾%Mar01)	Commerzbank
EUROS							
DG Hypothekenbank(p)	1.75bn	3.25	98.895R	Apr 2004	0.09R	+18½(Mar04)	ABN/DG Bank/Dresdner
Deutsche Ausgleichsbank	1.5bn	4.00(e)	(k)	Jul 2009	0.325R	(k)(3¾Jan09)	Deutsche/HSBC/Merrill
Commerzbank AG(m)	400	4.75	99.626R	Apr 2009	0.40R	+90(3¾Jan09)	Commerz/MSDW/Warburg
GECC(n)‡	350	3.375	99.845R	Apr 2004	0.25R	+16(5¼Apr04)	Paribas
Total SA(l)	300	3.875	99.693R	May 2006	0.30R	+39(l)	Crédit Agricole Indosuez
Sofinco‡	250	(o)	100.00R	Apr 2001	0.08R	-	Crédit Agricole Indosuez
SBAB‡	150	(q)	99.874	Sep 2004	0.15	-	Salomon Smith Barney
STERLING							
Halaba Intl Finance(t)	50	4.75	97.73	Dec 2009	2.00	-	RBC DS Global Markets
SWISS FRANCS							
IADB	500	2.00	101.00	May 2004	1.75	-	Warburg Dillon Read
CANADIAN DOLLARS							
Canada Mtg & Hsg Corp(u)	500	5.00	99.992R	Jun 2004	0.28R	+12(6¾%Jun04)	Merrill/TD Securities
NEW ZEALAND DOLLARS							
Westpac Tst Sca NZ(UK Br)	100	6.00	100.84	Apr 2004	2.00	-	RBC DS Global Markets

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $4bn. Plus 87 days accrued. a1) Priced today at market level. b) Fungible with $750m. Plus 63 days accrued. c) Fungible with $200m. Plus 119 days accrued. Puttable on 15/12/03 at par. d) Callable on 15/4/04 at par. d1) 3-mth Libor +45bp to Apr 04, then +95bp. e) Spread relates to German govt bonds unless stated. g) Puttable on 15/4/04 at par. h) Fungible with $500m. Plus 21 days accrued. i) Over interpolated yield. j) Fungible with $200m. Plus 61 days accrued. k) Priced today 28-29bp over bunds. l) Long 1st coupon. m) Subordinated. n) Fungible with €400m. Settles on coupon date. o) Eonia +10bp. p) Oeffentliche Pfandbriefe. q) 3-mth Euribor +10bp. s) Short 1st coupon. t) Fungible with £200m. Plus 56 days accrued. u) Fungible with C$650m. Plus 134 days accrued.

Liffe and Matif hit by Eurex

By Edward Luce, Capital Markets Editor

Turnover on Liffe and Matif, the London and Paris derivatives exchanges rose sharply last month but neither exchange came close to the levels disclosed by their Frankfurt-based competitor last week.

Liffe said the average daily nominal value on contracts it traded rose 13 per cent to £224bn in March. Overall volume of traded contracts fell 44 per cent on March 1998 to just 11.96m.

The annual decline was attributed to the loss of the futures contract on the 10-year German government bond to Eurex, the Frankfurt exchange, and to the fact Liffe halved the traded turnover of its European short-term interest rate futures when it converted them to the new Euribor reference rate in January.

Nevertheless, Liffe said it had an 87 per cent market share in the Euribor contract with a turnover of 3.5m. Overall volume on Matif rose by 20 per cent to 16m contracts last month driven by lively trading in the exchange's equity and index-based contracts.

Trading in the 10-year French government bond future – the Notional – rose by 17 per cent to 847,000 contracts. However, this was still a fraction of the turnover in the 10-year German bond future on Eurex, which became the most heavily traded futures contract in the world last month with a volume of 16m.

Eurex also overtook the Chicago Board of Trade last month to become the busiest exchange in the world.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Apr 7	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.7239	4.70	-0.02	-0.17	-0.40	-0.15
	08/08	6.750	125.1578	5.30	-	-0.17	-0.34	-0.19
Austria	03/01	5.250	104.3300	2.89	+0.02	-0.02	-0.25	-1.24
	01/08	5.000	107.1500	4.01	-0.04	-0.13	-0.19	-0.93
Belgium	03/01	6.000	103.6800	2.94	+0.02	-0.09	-0.21	-1.21
	03/09	3.750	98.7800	4.15	+0.01	-0.09	-0.12	-0.79
Canada	12/00	5.000	100.3669	4.76	+0.02	-0.08	-0.47	-0.05
	08/08	6.000	107.5600	4.96	+0.01	-0.07	-0.37	-0.22
Denmark	11/00	8.000	108.7700	3.22	+0.03	-0.09	-0.32	-1.18
	11/09	6.000	114.3600	4.25	-0.03	-0.11	-0.23	-0.89
Finland	06/00	4.000	101.3080	2.88	+0.01	-0.08	-0.20	-0.95
	04/09	5.000	107.1970	4.11	-0.05	-0.12	-0.19	-0.79
France	07/00	4.000	101.4100	2.82	+0.01	-0.03	-0.26	-1.29
	04/08	7.250	122.6700	3.86	-	-0.08	-0.23	-1.11
	04/09	4.000	99.9200	4.01	+0.01	-0.08	-0.15	-0.87
	04/29	5.500	109.2000	4.91	-	-0.09	-0.16	-0.49
Germany	06/01	5.000	104.2000	2.81	+0.03	-0.01	-0.16	-1.09
	01/08	6.000	113.6200	3.87	+0.01	-0.11	-0.20	-1.03
	01/09	3.750	98.8100	3.90	-	-0.11	-0.14	-0.86
	07/28	4.750	98.3500	4.88	-0.01	-0.13	-0.19	-0.54
Greece	03/00	9.800	100.5900	9.08	-0.10	-0.12	-0.39	-0.84
	01/09	6.300	103.4500	5.82	-0.10	-0.13	-0.21	-2.49
Ireland	10/01	6.500	108.4400	2.97	+0.01	-0.07	-0.26	-1.87
	08/06	8.000	115.3500	4.00	-0.03	-0.10	-0.23	-0.99
Italy	07/01	4.500	103.1800	3.00	-	-0.04	-0.16	-1.53
	07/03	4.500	104.5800	3.32	+0.02	-0.06	-0.23	-1.49
	05/09	4.500	103.1800	4.11	-0.03	-0.08	-0.15	-0.93
	11/27	6.500	120.8400	5.11	-0.02	-0.09	-0.11	-0.42
Japan	12/00	6.600	111.2500	0.20	-0.03	-0.03	-	-0.41
	12/03	4.100	115.0410	0.82	-0.07	-0.01	-0.05	-0.42
	06/08	1.800	102.1910	1.54	-0.10	-0.07	-0.10	-0.17
	09/18	2.300	98.0240	2.43	-0.08	-0.06	-0.11	-0.12
Netherlands	01/01	9.000	110.3000	2.89	+0.03	-0.09	-0.19	-1.24
	07/08	3.750	97.5800	4.04	-0.01	-0.10	-0.14	-0.81
New Zealand	02/01	6.500	105.5832	4.75	-	-0.07	-0.32	-3.19
	07/09	7.000	110.2154	5.66	-0.06	-0.16	-0.27	-1.25
Norway	05/01	7.000	104.4600	4.74	+0.02	-0.08	-0.24	+0.37
	05/09	5.500	105.9500	4.74	-0.06	-0.11	-0.25	-0.48
Portugal	03/00	5.375	102.3100	2.84	-0.05	-0.11	-0.18	-1.29
	06/08	5.375	109.4600	4.12	-0.04	-0.10	-0.16	-0.95
Spain	01/01	6.000	103.7900	2.81	+0.01	-0.05	-0.23	-1.40
	07/09	5.150	106.9300	4.30	-0.04	-0.12	-0.22	-0.68
Sweden	05/00	10.250	107.4237	3.01	-0.01	-0.01	-0.33	-1.67
	05/08	6.500	117.0380	4.30	-0.07	-0.13	-0.22	-0.98
Switzerland	06/00	4.500	103.6300	1.31	+0.01	-0.05	-0.10	-0.59
	01/08	4.250	116.1000	2.20	-0.08	-0.10	-0.02	-0.74
UK	11/01	7.000	105.3500	4.76	+0.03	+0.01	-0.19	-1.82
	12/03	6.500	108.1400	4.54	+0.01	-0.03	-0.19	-1.34
	12/09	5.750	111.2300	4.42	-0.01	-0.08	-0.17	-1.36
	12/28	6.000	125.9700	4.42	-0.03	-0.06	-0.15	-1.29
US	01/01	4.500	99.2247	4.95	-0.02	-0.09	-0.18	-0.54
	02/04	4.750	98.8842	5.01	+0.03	-0.10	-0.21	-0.57
	11/08	4.750	97.1982	5.12	-0.01	-0.12	-0.17	-0.46
	02/29	5.250	96.3047	5.50	-0.02	-0.12	-0.10	-0.38

London closing. * New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/annualised yield basis. [illegible]

10 YEAR BENCHMARK SPREADS

Apr 7	Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.31	+1.44	+0.19
Austria	4.16	+0.29	-0.96
Belgium	4.15	+0.28	-0.97
Canada	4.96	+1.09	-0.16
Denmark	4.24	+0.37	-0.88
Finland	4.13	+0.26	-0.99
France	3.99	+0.12	-1.13
Germany	3.87	-	-1.25
Greece	5.87	+2.00	+0.75
Ireland	4.07	+0.20	-1.05
Italy	4.13	+0.26	-0.99
Japan	1.65	-2.22	-3.47
Netherlands	4.01	+0.14	-1.11
New Zealand	5.66	+1.79	+0.54
Norway	4.74	+0.87	-0.38
Portugal	4.12	+0.25	-1.00
Spain	4.10	+0.23	-1.02
Sweden	4.26	+0.39	-0.86
Switzerland	2.41	-1.46	-2.71
UK	4.47	+0.60	-0.65
US	5.12	+1.25	-

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Apr 7	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	93.5000	9.63	-	+0.77	+4.67
Poland	07/04	7.125	BBB-	103.5000	6.31	-	+0.34	+1.30
Russia	06/07	10.000	n/a	27.0200	42.00	-	-6.63	+36.92
LATIN AMERICA								
Argentina	09/27	9.750	BB	85.0000	11.55	-0.10	-0.44	+6.09
Brazil	05/27	10.125	B+	74.2000	13.76	-0.03	-1.99	+8.39
Mexico	05/26	11.500	BB	112.7000	10.12	-0.05	-0.88	+4.88
ASIA								
China	07/06	7.750	BBB+	102.3583	7.31	-0.01	-0.46	+2.26
Philippines	10/16	8.750	BB+	94.0000	9.46	-0.04	-0.35	+4.21
Thailand	04/07	7.750	BBB-	102.0000	7.41	-0.05	-0.45	+2.35
AFRICA/MIDDLE EAST								
Lebanon	07/00	8.125	BB-	101.5107	7.80	-	+1.29	+2.89
South Africa	10/06	8.375	BB+	101.2993	8.14	-	-0.48	+3.03
Turkey	09/07	10.000	B	91.7500	11.56	-	-0.23	+6.46
BRADY BONDS								
Argentina	03/23	5.750	BB	70.5000	9.03	-0.09	-0.27	+3.64
Brazil	04/14	5.000	B+	65.9250	12.79	-0.09	-1.59	+7.56
Mexico	12/19	6.250	BB	79.3750	8.38	-0.09	-0.40	+3.05
Venezuela	03/20	6.750	B+	70.2500	10.22	+0.02	-1.00	+4.95

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	96.02	95.84	+0.12	96.08	95.86	35,790	81,265
Sep	-	95.66	+0.12	-	-	-	-

LONG TERM EURO BOND OPTIONS (MATIF)

Strike Price	CALLS May	CALLS Jun	CALLS Jul	PUTS May	PUTS Jun	PUTS Jul
93	-	-	0.26	-	-	-
94	-	-	0.13	-	3.49	-
95	-	-	0.06	-	4.45	-
96	-	-	0.03	-	5.45	-

Est. vol. total, Calls n/a Puts n/a. Previous day's open int., Calls n/a Puts n/a.

Germany

NOTIONAL EURO BUND FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	115.10	115.03	-0.06	115.18	114.83	580,654	551,891
Sep	115.11	115.11	-0.11	115.20	114.98	4,965	11,479

NOTIONAL EURO BOND (BOBL) FUTURES (EUREX) €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	109.48	109.34	-0.14	109.51	109.26	170,812	235,221

NOTIONAL EFB SWAP FUTURES (LIFFE)* 5yr 4.5% €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	101.89	+0.07	-	-	0	214

NOTIONAL EFB SWAP FUTURES (LIFFE)* 10yr 4.5% €100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	101.34	+0.34	-	-	0	367

* Trades on APT prior to listing on LIFFE CONNECT. All open interest figs. are for previous day.

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	114.30	114.39	+0.24	114.57	114.10	10249	39055

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.69	98.75	+0.25	98.84	98.30	14,147	16,034

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

NOTIONAL UK GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* LIFFE futures also traded on APT. All open interest figs. are for previous day.

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

Strike Price	CALLS		PUTS	
11650	[illegible]	[illegible]	[illegible]	[illegible]
11700	[illegible]	[illegible]	[illegible]	[illegible]
11750	[illegible]	[illegible]	[illegible]	[illegible]
11800	[illegible]	[illegible]	[illegible]	[illegible]
11850	[illegible]	[illegible]	[illegible]	[illegible]
11900	[illegible]	[illegible]	[illegible]	[illegible]

Est. vol. total, [illegible]

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Euro

€ [illegible] FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US CORPORATE BONDS

Apr 6	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	104.8271	5.69	-0.04	-0.23	+5.59
NY Tel	08/25	7.00	A+	99.8392	7.02	-0.06	-0.17	+1.50
CWE	05/05	8.00	BBB	113.2888	6.07	-0.07	-0.26	+0.95
FINANCIALS								
GECC	05/07	8.75	AAA	116.2779	5.88	-0.07	-0.21	+0.76
Banc One	08/02	7.25	A	104.4485	5.75	-0.04	-0.21	+5.75
CNA Fin	01/18	6.95	A-	94.9217	7.45	-0.06	-0.25	+1.93
INDUSTRIALS								
WMX Tech	04/00	6.25	BBB+	100.0000	5.38	-0.14	-0.33	+0.91
Wal Mart	06/02	8.75	AA	103.9989	5.33	-0.04	-0.25	+5.33
Dayton Hud	08/21	9.70	A-	132.1784	6.85	-0.08	-0.09	+1.39
AGENCIES								
FHLMC	04/07	7.14	NA	108.8943	5.76	-0.08	-0.16	+0.64
SLMA	03/00	7.50	NA	102.0996	5.12	+0.01	-0.19	+0.66
FNMA	02/18	8.95	NA	132.2530	6.05	-0.07	-0.13	+0.53
FFCB	06/06	8.95	NA	118.9163	5.69	-0.05	-0.15	+0.57
HIGH YIELD								
Stone Cont	02/01	9.85	B	101.5000	8.00	-	-	-
AK Stl	12/01	9.13	BB-	106.0000	0.08	-	-	-
Pacific	06/04	10.75	B-	99.0000	0.90	-	-	-

NY close. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest

		Treasury Bills and Bond Yields			
Prime rate	7¾	One month	-	Two year	4.93
Broker loan rate	6½	Two month	-	Three year	4.97
Fed.funds	4$\frac{13}{16}$	Three month	4.41	Five year	5.02
Fed.funds at intervention	-	Six month	4.54	10-year	5.12
		One year	4.67	30-year	5.51

INTERNATIONAL BONDS

Apr 7	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
$								
EIB	04/07	7.250	AAA	108.8982	5.83	-0.02	-0.15	+0.76
ABN Amro	08/07	7.125	AA-	104.6046	6.38	-0.02	-0.06	+1.30
Quebec	01/07	7.000	A+	105.7621	6.06	-0.02	-0.04	+0.98
Citicorp FRN	02/04	5.086	AA-	99.8391	6.15	-0.02	-0.22	+0.14
DM								
Bayer L-Bk	08/04	8.500	AAA	116.3626	5.43	+0.02	-0.37	+0.23
Toronto (M of)	06/04	8.500	AA+	113.4653	5.41	+0.02	-0.36	+0.21
Bell Canada	07/99	10.625	A+	101.2750	6.21	+0.03	-0.42	+1.26
Deutsche B FRN	09/02	5.875	AA+	101.0870	5.52	+0.03	-0.30	+0.42
£								
EIB	12/07	7.625	AAA	116.3100	5.23	+0.01	-0.06	+0.84
Dresdner Bk	12/07	7.750	AA-	111.9972	5.99	-	-0.20	+1.34
British Gas	03/00	7.625	A+	101.9000	5.54	+0.05	-0.11	+0.75
Abbey Nat FRN	02/02	5.587	AA	100.0103	4.93	+0.02	+0.36	+0.16
SFR								
EIB	01/05	3.750	AAA	104.3055	3.18	-0.05	-0.02	+0.94
Brit Columbia	02/02	3.250	AA	103.8232	1.88	-0.01	-0.07	+0.25
Hydro-Quebec	05/01	6.750	n/a	108.7272	2.45	-0.01	-0.12	+1.85
Gen Elect	09/01	1.250	n/a	99.7218	1.43	-0.01	-0.09	+0.01
YEN								
IBRD (World Bk)	03/02	5.250	AAA	114.0660	0.42	-0.06	-	-0.08
Spain (Kingdom)	03/02	5.750	AA+	115.5142	0.44	-0.06	-0.03	-0.01
Cred Foncier	06/02	4.750	A	112.4454	0.83	-0.06	-0.01	+0.48
Italy (Rep of)	07/99	0.818	AA	100.0272	0.11	-0.14	-0.06	+0.01
A$								
IBRD (World Bk)	02/08	8.000	AAA	103.3657	6.50	-0.02	-0.37	+0.21
New Sth Wales Tr	05/06	6.500	n/a	105.5296	5.54	-0.01	-0.34	+0.36
S. Aus Gov Fin	06/03	7.750	AA	108.2514	5.50	-0.03	-0.38	+0.58
GMAC Aust	09/01	9.000	n/a	107.1892	5.30	-0.03	-0.43	+0.56

London closing. Standard & Poor's ratings. Yields: Local market standard/annualised basis. Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Government Securities

Price Indices UK Gilts	Wed Apr 7	Day's chge %	Accrued interest	xd adj ytd	Total Return	Yield	Duration Years	% Weight
1 Up to 5 years (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 5-10 years (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 10-15 years (5)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 5-15 years (16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 Over 15 years (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
6 Irredeemables (4)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7 All stocks (41)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK Indices

Index-linked	Wed Apr 7	Day's chge %	Accrued interest	xd adj ytd	Total Return	% Weight
1 Up to 5 years (2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2 Over 5 years (9)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 5-15 years (5)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4 Over 15 years (4)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5 All stocks (11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FT Fixed Interest Indices [illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

هكذا من الاصل

CURRENCIES & MONEY

Money markets await rate decisions

MARKETS REPORT

By Richard Adams

Interest rate decisions about to be announced by central banks in Europe influenced trading in both the euro and sterling yesterday.

Strong economic data and short-covering was behind a recovery in sterling against the US dollar on the foreign exchange markets. The pound strengthened by more than half a cent, to end trading hours in London at $1.596 compared with the previous day's close of $1.59 on Tuesday.

The euro also strengthened against the dollar – from $1.076 on Tuesday to $1.08 yesterday – as peace hopes in Kosovo faded and the market's saw a probable cut in interest rates by the European Central Bank as a reason to take profits.

The biggest movements came in the UK's sterling interest rate future market, with the front contract losing six basis points as news that the service sector expanded last month was thought likely to increase the chance of UK rates being left on hold.

Elsewhere in Europe, the Danish central bank unveiled healthy foreign exchange reserve figures, which traders said would increase the chances of a further rate cut there.

■ If the Bank of England's monetary policy committee decides to leave rates on hold today – when it announces its decision at 11am GMT – there is the potential for a violent reaction in the money markets, according to some.

Ray Attrill, an analyst at 4Cast forex consultancy, said the money market was "very vulnerable" to a no-change decision by the MPC today.

"A no-change decision could bring a violent negative reaction in the money market, because the market has already priced in a two 25 basis point cuts." Mr Attrill said.

But Ian Mair, director of money markets at Halifax bank in London, cautioned against getting carried away by the sell-off after the strong service sector data. "One figure, and some people dive all over the place," he said.

If rates are left on hold at 5.5 per cent, Mr Mair said there could be a sharp bearish reaction. "But we've had a lot of volatility in the last six months, some of which has been completely wrong." he said.

■ The dollar was unchanged against the yen at Y121.1, despite pressure coming from euro/yen trading elsewhere.

Japan's economic woes remain on the lips of US policy makers. Gary Stern, president of the Minneapolis Federal Reserve and a member of the FOMC, said: "Japan is the 800-pound gorilla. I really think we need to see some improvement in Japan."

But Robert Parry, president of the San Francisco Federal Reserve and fellow FOMC member, was reassuring. "Japan has a difficult road ahead, but they have at least made some changes and the worst is over," Mr Parry said.

Mr Stern said the fighting in Kosovo and Serbia had not seemed to have affected the financial markets, and was unlikely to be as significant for the US economy as the Gulf War was in 1990-91.

■ The Kazakh tenge made a strong recovery yesterday, to the relief of its central bank, only three days after an effective devaluation of the currency.

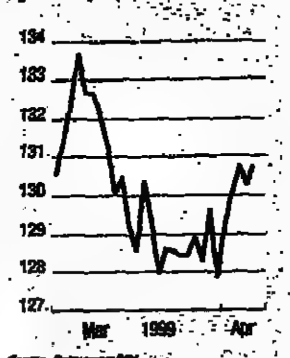
Kadyrzhan Damitov, the central bank chairman, said: "Overall, I think the situation is changing radically." He said that using fixed rates or currency bands would not be able to protect the country from external economic shocks.

The tenge had plunged from 88.3 against the US dollar last Friday, to 150 on Tuesday, after the government in Almaty announced it would stop its policy of intervention in the foreign exchange markets.

Yesterday the weighted average of the official exchange rate rose to 118 tenge to the dollar, helped partly by the relatively calm domestic reaction.

The People Savings Bank, the largest retail bank in the country, reported few signs of panic following the devaluation – an attitude helped by the government's decision to convert savings into dollars at the old 88.3 rate if the savings were held for nine months.

Euro
Against the yen (Y per €)



Source: Datastream/ICV

■ POUND IN NEW YORK

Apr 7	— Latest —	— Prev. close —
£ spot	1.5970	1.5920
1 mth	1.5965	1.5915
3 mth	1.5961	1.5910
1 yr	1.5977	1.5939

■ OTHER CURRENCIES

Apr 7	£	$
Czech Rp	55.3496 - 55.4441	35.3050 - 35.[illegible]
Hungary	374.809 - 375.523	234.990 - 235.280
Iran	4788.00 - 4795.00	3000.00 - 3000.00
Kuwait	0.4871 - 0.4876	0.3054 - 0.3055
Peru	5.3736 - 5.3833	3.3690 - 3.3730
Poland	6.3417 - 6.3505	3.9760 - 3.9790
Russia	40.8839 - 41.1768	25.6200 - 25.8000
U.A.E.	[illegible]	3.6727 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Apr 7 — Closing mid-point, Change on day, Bid/offer spread, Day's mid high/low, One month Rate/%PA, Three months Rate/%PA, One year Rate/%PA, Bank of Eng. Index

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Apr 7 — Closing mid-point, Change on day, Bid/offer spread, Day's mid high/low, One month Rate/%PA, Three months Rate/%PA, One year Rate/%PA, J.P. Morgan Index

[illegible]

WORLD INTEREST RATES

MONEY RATES

Apr 7	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	3.00	3.00
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	1.00	–
US	[illegible]	[illegible]	[illegible]	5	[illegible]	–	4.50	–
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–	0.50	–
■ $ LIBOR BBA London								
Interbank Fixing	–	[illegible]	5	[illegible]	[illegible]	–	–	–
US Dollar CDs	–	4.70	4.70	4.82	4.94	–	–	–
Euro Linked Ds	–	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
SDR Linked Ds	–	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
BBA Euro Libor	–	[illegible]	[illegible]	[illegible]	[illegible]	–	–	–
Euro Euribor	–	2.929	2.900	2.883	2.903	–	–	–
EONIA	3.08	–	–	–	–	–	–	–
EURONIA	3.0528	–	–	–	–	–	–	–

[illegible]
Mid rates are shown for the domestic Money Rates, US$ CDs, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Apr 7 — Short term, 7 days notice, One month, Three months, Six months, One year

Euro, Danish Krone, Sterling, Swiss Franc, Canadian Dollar, US Dollar, Japanese Yen, Asian $Sing: [illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURIBOR FUTURES (MATIF) Paris Interbank offered rate

[illegible]

■ THREE MONTH EURIBOR FUTURES (LIFFE) €1m 100-rate

[illegible]

■ THREE MONTH EURO LIBOR FUTURES (LIFFE) €1m 100-rate

[illegible]

■ EURIBOR OPTIONS (LIFFE) €1m 100-rate

[illegible]

■ THREE MONTH EURO LIBOR OPTIONS (LIFFE) €1m 100-rate

[illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m 100-rate

[illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m 100-rate

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr1m 100-rate

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

■ D-MARK FUTURES (CME) DM 125,000 per DM

[illegible]

■ JAPANESE YEN FUTURES (CME) Yen 12.5m per Yen 100

[illegible]

■ SWISS FRANC FUTURES (CME) SFr 125,000 per SFr

[illegible]

■ STERLING FUTURES (CME) £62,500 per £

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.980	94.920	-0.060	94.980	[illegible]	[illegible]	[illegible]
Sep	95.080	94.970	-0.080	95.080	94.940	53138	192297
Dec	94.840	94.765	-0.075	94.840	94.740	9391	141649
Mar	94.990	94.905	-0.075	94.990	94.870	13781	131434
Jun	94.910	94.835	-0.065	94.910	94.790	13787	109773

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
94750	0.215	0.320	0.315	0.045	0.100	0.300
94875	0.135			0.090		
95000	0.075	0.170	0.200	0.155	0.200	0.435
95125	0.040			0.245		
95250	0.020	0.080	0.120	0.350	0.360	0.605
95375	0.010			0.465		

Est. vol. total, Calls 14693 Puts 11595. Previous day's open int., Calls 423442 Puts 493040

Previous day's vol., Calls 10 Puts 7 . Prev. day's open int., Calls 845 Puts 1,629

■ PHILADELPHIA SE D-MARK$ OPTIONS DM62,500 ($ per DM)

Strike Price	Calls Apr	Calls May	Calls Jun	Puts Apr	Puts May	Puts Jun
0.550	0.27	0.59	0.84	0.47	0.71	0.89
0.555	0.14	0.41	0.64	0.82	[illegible]	1.14
0.560	0.01	0.28	0.46	–	–	1.47

Previous day's vol., Calls 0 Puts 14 . Prev. day's open int., Calls 125 Puts 261

■ THREE MONTH EURODOLLAR (CME) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.96	95.00	-0.01	–	–	38,754	455,001
Sep	94.89	94.93	-0.02	–	–	77,770	440,834
Dec	94.55	–	–	–	–	21,906	353,459

■ US TREASURY BILL FUTURES (CME) $1m per 100%

Jun	95.77	–	–	95.77	95.75	60	1,473

BASE LENDING RATES

	%		%		%
Adam & Company	5.50	Exeter Trust Limited	6.50	Smith & Williamson	5.50
Allied Irish Bank (GB)	5.50	●Robert Fleming & Co	5.50	Sun Bank	5.50
●Henry Ansbacher	5.50	Habib Bank AG Zurich	5.50	TSB	5.50
Banco Bilbao Vizcaya	5.50	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.50	C. Hoare & Co	5.50	Unity Trust Bank Plc	5.50
Bank of Ireland	5.50	●SG Hambros Bank & Trust	5.50	Whiteaway Laidlaw	5.50
Bank of India	5.50	Hongkong & Shanghai	5.50	Yorkshire Bank	5.50
Bank of Scotland	5.50	Investec Bank (UK) Ltd	5.50		
Barclays Bank	5.50	Julian Hodge Bank	5.50		
Brit Bk of Mid East	5.50	●Leopold Joseph & Sons	5.50		
●Brown Shipley & Co Ltd	5.50	Lloyds Bank	5.50		
Citibank NA	5.50	Midland Bank	5.50		
Clydesdale Bank	5.50	NatWestminster	5.50		
The Co-operative Bank	5.50	●Rea Brothers	5.50		
Coutts & Co	5.50	Royal Bk of Scotland	5.50		
Cyprus Popular Bank	5.50	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.50		

● Members of London Investment Banking Association

COMMODITIES & AGRICULTURE

MANGOES CROP HAS BENEFITED FROM IDEAL GROWING CONDITIONS

Indian harvest expected to reach 11m tonnes

By Kunal Bose in Calcutta

India, which produces nearly 60 per cent of the world's mangoes, is to harvest a bumper crop of about 11m tonnes in the current year.

Production was just about 5m tonnes in 1998 due to unseasonal rain and an unduly long cold spell.

"The growing condition has been ideal this year. Very warm days and cool nights led to large-scale flowering in mango trees and unlike last year only a small portion of the crop has been hit by pests. We have been noticing some improvement in pre-harvest crop management," said an official of the Agricultural and Processed Food Products Export Development Authority.

According to trade officials, mango prices, which rose to record levels last year, will fall sharply as the new crop starts arriving in large quantities in the next few weeks.

In the big mango-growing states of Andhra Pradesh, Uttar Pradesh, Maharashtra and Karnataka, the fruit-bearing trees have been auctioned at "less than one-third the rates of last year".

Prices will remain low even if north-west winds and hailstorms cause some damage to the crop. Trade officials say the price collapse in a bumper crop year is also triggered by the "lack of proper fruit preservation facilities".

Poor post-harvest practices result in the loss of over 30 per cent of the Indian crop. "India has nearly 1.2m hectares under mango crop but the productivity of about 9 tonnes a hectare is among the lowest in the world," said an official at the Indian Chamber of Commerce.

The low productivity is due to the majority of mango orchards being small in size without irrigation facilities, poor genetic stocks and high incidence of pests and diseases.

But only a few states have started addressing the problems of poor genetic stocks and unscientific farm practices.

Trade officials say in spite of the bumper crop India's mango export in 1999 will not be "very much more than last year's 25,000 tonnes".

India has done little to promote mango exports except for giving freight subsidy to exporters. "India should emulate Pakistan, which has a mango board to support exports," said an exporter. India, which has nearly 2,000 varieties of mango, has been able to establish only five – alphanso, banganpalli, totappuri, chausa and safeda – in the world market.

The principal markets for Indian mangoes are the UK, south-east Asia, the Middle East and Japan. The country has only 10 per cent share of world mango export.

Liffe volumes rise 27% in term

By Paul Solman

Commodity futures volumes on the London International Financial Futures and Options Exchange rose 27 per cent during the first quarter of this year.

Volumes for the exchange's seven commodity futures products – cocoa, robusta coffee, white sugar, wheat, barley, potatoes and freight – jumped to 1.4m contracts between January and March, against 1.1m during the same period last year, Liffe said yesterday.

"Overall volumes have been helped by a jump in coffee, cocoa and sugar volumes, which are showing increasing interest despite low prices," a Liffe official said yesterday.

Coffee, cocoa and sugar – the three most popular contracts – all recorded gains of more than 25 per cent in the first quarter, with coffee adding 31 per cent to its volumes compared with the first quarter of 1998.

In the same period, prices dropped to historic lows. Cocoa fell steadily while coffee and sugar traded at around their lowest for five and 11 years respectively.

Liffe's potato futures volumes jumped 71 per cent, helped by flooding across Europe this winter that hampered the potato harvest, tightening supplies and lifting farm prices to more than twice their 1998 levels.

Barley futures were less popular, however, and volumes fell 53 per cent compared with the first quarter of last year. "The decline in barley continues to reflect changes in the physical market, such as barley becoming less important for feed," the Liffe official said.

Biffex futures – based on the Baltic Exchange's index of dry cargo freight rates – fell 9 per cent.

Oil cut doubt in Venezuela

MARKETS REPORT

By Paul Solman and Gillian O'Connor

Oil prices weakened yesterday amid signs that one of the world's leading crude producers would have trouble implementing the output cuts agreed last month.

Venezuela said it would be unable to begin reducing its oil output immediately, citing social problems in the country.

However, the government stressed it was committed to the cuts, which were endorsed by the Organisation of Petroleum Exporting Countries last month and are aimed at shaving more than 2m barrels from daily production.

The cuts were due to have begun on April 1.

Brent crude's benchmark May contract slipped close to $14.50 a barrel at one stage on London's International Petroleum Exchange. In late trading, it was $14.66 against Tuesday's close of $14.93.

Sugar futures prices show little sign of recovering from their current lows, ED&F Man said yesterday.

In its latest Sugar Situation report, the broker pointed out that production in many countries looked set to exceed forecasts.

In addition, Russia, one of the world's main sugar importers, was buying less than last year, and shipments from Brazil, the largest exporter, continued to grow.

August white sugar was down 70 cents at $190.40 a tonne in late trading yesterday on the London International Financial Futures and Options Exchange.

Prices of copper and nickel both rose by around 2 per cent on the London Metal Exchange yesterday. The other base metals also finished the day higher.

The main reason for the strength of the copper price was the 4,675 tonne reduction in LME stocks.

Macquarie Equities said that the 4,800 tonnes of copper withdrawn from warehouses in Singapore is almost certainly heading for China. But it cautioned that further large-scale withdrawals look unlikely in the near future.

Flemings Research argued that copper prices are more likely to rise than fall over the next month.

The industry is hoping for news of production cuts before the end of May, with Cominco's Highland Valley mine and BHP's US mines, the focus of attention.

Romania attempts to fulfil geologists' dreams of gold

The country is seeking investors to build on its long history of mining the precious metal, writes **Gillian O'Connor**

The president of Romania's Mineral Resources Agency, Mihail Ianas, keeps a very straight face. He leans forward and hands over a piece of paper containing detailed figures for the country's gold and silver production for three periods: the years prior to 395 BC; 395 BC to AD 1492; and 1492 to 1998.

The Romanian government is very keen to persuade foreign investors to explore for gold, and the agency is trying to persuade them of the case for doing so.

It argues that the country's long gold-mining tradition makes it likely that there are still substantial quantities of gold left in the rock and in old waste dumps which can be recovered by more modern mining methods. It is auctioning off a series of exploration licences carrying substantial tax concessions.

If its campaign is successful, the exploration spending involved should create jobs for the country's large number of unemployed as well as invigorate the local economy.

The employment prospects are particularly important because the government is also in the process of closing down the lossmaking state-owned mines. Romania's miners represent a powerful lobby and closures will be easier if the government can hold out the hope of alternative employment in new foreign-owned mines.

The jocular Mr Ianas divides the country's existing mines into the good and the bad. The good – producing materials such as lignite (a soft, low-grade coal), salt and the kind of stone used in shop fronts – are those which can be worked efficiently and profitably through open cast pits without state subsidies.

The bad – producing materials such as copper, lead, zinc, gold, silver, and coal for power stations – are those which at present soak up state subsidies and are incapable of being worked efficiently even using western technology. They are to be closed as rapidly as politics permit.

So there is an urgent need to find new ore bodies which can be worked profitably through open cast mining – which is cheaper than extraction from deep mines.

The first set of licences, including 15 blocks for gold and silver exploration, were auctioned in January.

Mr Ianas reels off the names of well-known mining companies, such as BHP and Normandy, which are said to have participated. In total the 15 companies concerned are scheduled to spend $100m over the next five years.

The second auction will also include a few gold and silver licences. Details, says Mr Ianas, as he hands across another piece of paper, can be found on the internet.

Companies successfully competing in the tenders get five-year exploration licences, which can be extended. Tax incentives include freedom from corporation tax for up to 10 years, depending on the size of the investment, and the right to set capital spending against future taxable profits.

In addition there are substantial concessions on import duties for machinery to explore or develop the mine – and for the personal goods of the individuals working there.

Old gold: disused mining machinery at Rosia Montana

Two foreign companies have already started work through joint ventures with the moribund state-owned mining companies. Esmeralda Exploration, an Australian company, has a joint venture with Remin, the state company, to re-process waste from the Baia mines.

Gabriel Resources, another Australian company, holds the licence for one of the biggest goldmines, Rosia Montana, which is claimed to have yielded 130 tonnes.

But why should exploration companies choose Romania rather than Tanzania or the Andes? Romania, argues Mr Ianas, as he hands across a third piece of paper showing the genesis of deposits of different minerals, is a geologist's dream.

These range from the proterozoic cycle with its chrome, nickel, manganese and copper deposits; the Hercinic cycles with its iron, lead and zinc deposits; to the Alpine cycle which in the Neogene period produced silver and gold deposits.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1235.5-36.5	1258-58.5
Previous	1221-2	1244-5
High/low		1261/1254
AM Official	1234-35	1257.5-58
Kerb close		1259-59.5
Open int.	289,963	
Total daily turnover	72,651	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1119-24	1140-45
Previous	1104-9	1125-30
High/low		1142/1140
AM Official	1116-18	1138-40
Kerb close		1142-47
Open int.	8,273	
Total daily turnover	1,881	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	488.5-6.5	496-8
Previous	488.5-9.5	492-2.5
High/low		508/493
AM Official	490.5-1	494.5-5
Kerb close		498-9
Open int.	37,949	
Total daily turnover	16,979	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4950-60	5025-30
Previous	4855-65	4935-40
High/low		5050/4890
AM Official	4895-900	4975-80
Kerb close		5005-15
Open int.	70,564	
Total daily turnover	28,470	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5270-80	5250-60
Previous	5260-70	5220-30
High/low		5280/5235
AM Official	5305-10	5250-60
Kerb close		5275-80
Open int.	[illegible]	
Total daily turnover	4,981	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	975-6	993.5-4
Previous	966-7	984-5
High/low		1000/983
AM Official	981-2	996-6.5
Kerb close		996.5-7
Open int.	85,207	
Total daily turnover	29,430	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1401-02	1427-28
[illegible]	[illegible]	[illegible]

[illegible]

PRECIOUS METALS

[illegible]

Precious Metals continued

[illegible]

ENERGY

[illegible]

GRAINS AND OIL SEEDS

[illegible]

SOFTS

[illegible]

MEAT AND LIVESTOCK

[illegible]

PULP AND PAPER

[illegible]

INDICES

[illegible]

LONDON TRADED OPTIONS

[illegible]

LONDON SPOT MARKETS

[illegible]

Minor Metals from Metal Bulletin [illegible]

JOTTER PAD

For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

CROSSWORD

No.9,956 Set by CAPER

ACROSS

1 15s – second cause of many days off work? (6)
4 Common 25 across often appearing in early November (8)
9 Promise something to follow toast (6)
10 25 across's suit (8)
11 Beasts spotted laughing (6)
12 Youngsters set out after bar (8)
13 Either way you look at it – it's a failure (3)
14 Keep alien in water (6)
17 Transport I catch for senior politicians (7)
21 Of course it's Chinese (3,3)
25 One's worth, say, about a thousand? (3)
26 Bring a magazine around again for culture (4-4)
27 Remote flying rock (6)
28 This dancers' gear would be good for "Cats" – if time were pressure (8)
29 Dexter's copper left scrap (6)
30 Prize 10, 31, 1 down and 20 might comprise one (8)
31 Loops 25 acrosses (6)

DOWN

[illegible]
3 Overbearing boxer, say, dull and in charge (6)
5 With self-possession I sat for artist outside (6)
6 Around start of millennium Pedro frolicked thus (6)
7 Man's weapons (6)
8 Is spider, say, without face? (6)
12 Nick a match (7)
15 Pester badger and horse (3)
16 Sack some glib editor (3)
18 Dull book I research briefly inside (8)
19 Idiot destroyed roses one values (8)
20 25 acrosses abundant in Oz (8)
22 British share vote (6)
23 When upset, look to Caper to be an exotic dancer (6)
24 Girl plugs healthy meals (6)
25 Look at the goose (6)

Solution 9,955

هكذا من الاصل

FT MANAGED FUNDS SERVICE

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (REGULATED)(**)

IRELAND (FSA RECOGNISED)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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JERSEY
(FSA RECOGNISED)

[illegible]

LUXEMBOURG
(FSA RECOGNISED)

[illegible]

JERSEY
(REGULATED)(**)

[illegible]

LUXEMBOURG
(REGULATED)(**)

[illegible]

OFFSHORE INSURANCES

[illegible]

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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

AEROSPACE & DEFENCE

AUTOMOBILES

BANKS

BEVERAGES

CHEMICALS

CONSTRUCTION & BUILDING MATERIALS

CONSTRUCTION & BUILDING MATERIALS - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQUIPMENT

ENGINEERING & MACHINERY

ENGINEERING & MACHINERY - Continued

FOOD & DRUG RETAILERS

FOOD PRODUCERS & PROCESSORS

FOOD PRODUCERS & PROCESSORS - Continued

FORESTRY & PAPER

GAS DISTRIBUTION

GENERAL RETAILERS

HEALTH

HOUSEHOLD GOODS & TEXTILES

HOUSEHOLD GOODS & TEXTILES - Continued

INFORMATION TECHNOLOGY HARDWARE

INSURANCE

INVESTMENT COMPANIES

INVESTMENT COMPANIES - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL – Continued

[illegible]

MINING – Continued

[illegible]

REAL ESTATE – Continued

[illegible]

SPECIALITY & OTHER FINANCE – Continued

[illegible]

TRANSPORT – Continued

[illegible]

AIM – Continued

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

STEEL & OTHER METALS

[illegible]

LEISURE, ENTERTAINMENT & HOTELS

[illegible]

OIL & GAS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

REAL ESTATE – Continued

[illegible]

SUPPORT SERVICES

[illegible]

TRADED INDEX SECURITIES

[illegible]

AIM

Alternative Investment Market

[illegible]

LIFE ASSURANCE

[illegible]

PACKAGING

[illegible]

RESTAURANTS, PUBS & BREWERIES

[illegible]

MEDIA & PHOTOGRAPHY

[illegible]

PERSONAL CARE & HOUSEHOLD PRODUCTS

[illegible]

GUIDE TO LONDON SHARE SERVICE

[illegible]

PHARMACEUTICALS

[illegible]

SOFTWARE & COMPUTER SERVICES

[illegible]

TELECOMMUNICATIONS SERVICES

[illegible]

TOBACCO

[illegible]

REAL ESTATE

[illegible]

TRANSPORT

[illegible]

MINING

[illegible]

SPECIALITY & OTHER FINANCE

[illegible]

LONDON STOCK EXCHANGE

Footsie and All-Share indices camp in the uplands

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

London's benchmark index, the FTSE 100, continued its march into new high ground yesterday, hitting intra-day and closing peaks and only just failing to drive through the 6,500 level at one point.

At the close of business, the FTSE 100 was a net 57.9 ahead at 6,473.2, a two-day gain of 143.2 or 2.3 per cent. Also hitting new records was the FTSE All-Share index, which finished at a closing high of 2,963.26, after an intra-day peak of 2,971.79.

Meanwhile, the FTSE 250 jumped 41.8 to 5,498.5, having just failed to penetrate the 5,500 level, topping out at 5,499.6, while the FTSE SmallCap ended at 2,411.1, up 4.1.

The start of the new tax year means that advance corporation tax has been abolished. As a result, the published dividend yield on the All-Share has fallen sharply, dropping from 2.6 to less than 2.3 per cent. The yield ratio, the calculation that compares bond and dividend yields, has leapt from 1.8 to around 2.

Once again it was the prospect of interest rate cuts both in the UK and in the euro-zone, possibly as early as today, that was the main driving force behind the strong gains in London's equity market.

Those gains looked even more impressive during initial trading, given Wall Street's rather disappointing closing performance overnight when the Dow Jones Industrial Average finished 43 points lower having once again failed to hold on to the 10,000 level.

The Dow recrossed 10,000 in early trading yesterday before losing its grip on that number again.

Dealers and economists were mostly confident that the Bank of England's monetary policy committee would deliver another reduction in domestic interest rates when it announces its decision at midday today.

But some observers were not so convinced of the certainty of a rate cut after a batch of stronger-than-expected economic data was announced yesterday.

The Chartered Institute of Purchasing and Supply survey of services came in at 53 per cent, its highest level since last September; economists had been expecting a figure below 50 per cent.

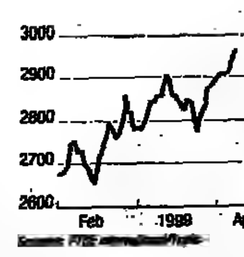
And industrial production rose 0.1 per cent in February, against a consensus forecast of minus 0.2 per cent, while a 0.1 per cent decline in manufacturing output was less than the 0.3 per cent consensus forecast.

The strategy and economics team at ABN-Amro said: "The improvement in the inflation outlook should offset any concerns about the recent jump in the oil price and give the monetary policy committee confidence to trim a further 25 basis points off the repo rate."

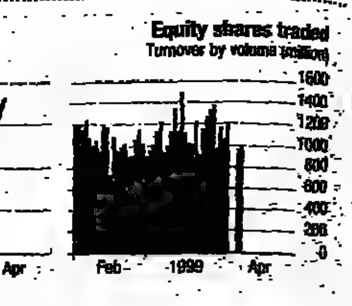
Dresdner Kleinwort Benson also expects a 25 basis points cut. "Since the March mpc meeting the news flow has continued to argue for an easing of policy," it said. Both investment banks also expect the European Central Bank to cut rates by 25 basis points.

Commenting on the latest surge, Corey Miller, UK equity market strategist at Paribas, said: "The market is momentum driven; the institutions are still pushing money into the market and there is a better feeling about earnings estimates."

FTSE All-Share index



Equity shares traded Turnover by volume (million)



Indices and ratios (Figures for 6/4/99.)

FTSE 100	6415.3	+80.3	FT 30	3873.3	+34.5
FTSE 250	5456.7	+3.4	FTSE Non Fins p/e	25.98	26.14
FTSE 350	3037.0	+34.7	FTSE 100 Fut Mar	6187.5	-107.5
FTSE All-Share	2935.28	+32.06	10 yr Gilt yield	4.57	4.58
FTSE All-Share yield	2.29	2.80	Long gilt/equity yld ratio	2.01	1.92

Best performing sectors

1 Telecommunications +4.0
2 Retailers General +2.7
3 Insurance +2.4
4 Services +2.0
5 Media +2.0

Worst performing sectors

1 Gas Distribution -3.5
2 Building Matls & Merchs -2.4
3 Water -1.7
4 Utilities -1.4
5 Paper, Pckg & Printing -1.1

Data lift for banks and shops

COMPANIES REPORT

By Joel Kibazo, Steve Thompson and Martin Brice

Some more positive data on the UK economy combined with hopes of a cut in interest rates to drive the retail banking sector sharply ahead.

The latest Chartered Institute of Purchasing and Supply service sector survey provided a sign that the economy is responding to the interest rate cuts made by the Bank of England over the last five months and that some of the gloom that had threatened consumer confidence had started to dissipate.

Although the CIPS said it was taking a cautious view on further rate cuts, hopes of such a reduction remained in some quarters of the market and helped lift banking stocks.

The mortgage banks were particularly in demand with investors in **Abbey National** cheered by a bullish house price survey. The shares jumped 77 to £13.38, one of the best performers in the FTSE 100. **Halifax**, also boosted by the survey, rose 48½ to 850p.

In the rest of the sector, the strong overnight performance in Hong Kong helped **Standard Chartered** advance 48 to 972½p while **HSBC** hardened 102 to £22.05. **National Westminster** improved 72 to £15.25.

One sector analyst said: "Lower interest rates should ensure that the current bad debt forecasts are a little too pessimistic." Dealers also expect confident statements from several sector constituents in the coming weeks.

The soft landing theory triggered a burst of strong support for retail stocks, as did positive press comment and ever-present takeover hopes.

In the leaders **Marks and Spencer** was by far the most heavily traded stock attracting turnover of 26m, although the shares ended the session barely changed at 436½p.

Strong support from SG Securities and a general view that the stock has been oversold recently saw **GUS** move up 27½ to 665p.

Kingfisher gained 12½ to 823p and **Next** climbed 55 to 807p.

Bullish comment on the outlook for furniture and home furnishings produced big gains in **DFS**, up 16 to 282½p, and **Carpetright**, up 27½ to 392½p.

Takeover speculation was behind the jump in **Harvey Nichols**, which closed 11 up at 188½p.

The media sector was thoroughly depressed, providing two of the three worst performers in the FTSE 100 in **Pearson** and **Reed International**.

The former, still feeling the effects of the "take profits" recommendation issued on Tuesday by stockbroker Collins Stewart, fell away to finish the session a net 70 lower at £12.95.

Concerns centred around Pearson's 1998 report and accounts, which showed a fall in profits for the Simon & Schuster educational businesses acquired last November. However, the company issued a statement yesterday, which said: "Simon & Schuster made a strong start in the month of December and we are comfortable with the market's profit estimates for 1999."

Goldman Sachs said it was maintaining its profit estimates and its "outperformance" rating on Pearson.

"The combined educational businesses of S & S and Pearson are now trading strongly and the group remains on line to meet our (and consensus) estimates to the educational division," Goldman Sachs said.

Dealers in media and publishing stocks could barely hide their anger at Tuesday's late news that Reed International had abandoned talks with the favourite candidate for the post of chief executive. The group also announced the departure of two directors.

"We have waited for such a long time to have someone at the helm only for the news to be negative. This is a disaster," said one sector specialist.

On an otherwise firm day in the market, selling of the stock saw it relinquish 14 to 553p, in busy trade of 8.6m. However, late afternoon talk of a possible bid for the group prevented a further decline in the shares.

Reed suitor

Michael Savage at Collins Stewart suggested Dutch group Wolters Kluwer as a possible suitor. "Reed Elsevier shareholders would now roll out the red carpet to an approach from Wolters who would then be invited to chance their arm with the regulatory authorities. Business disposals could then be made from the Reed Elsevier portfolio, rather than that of Wolters," he said.

In the rest of the media-related stocks, general profit-taking and some nervous trading left **Carlton Communications** 13 lighter at 614p.

The company is to hold a presentation today on On-Digital, the new digital television channel in which it holds a 50 per cent stake.

The move by **BICC** to sell its energy cable business to General Cable for £275m in cash prompted a surge in the stock, which achieved the best performance in the FTSE 250. The rise of almost 13 per cent or 12 to 106p moved the shares close to the 110p that Wassall said yesterday it had offered.

Wassall said its offer was conditional on the BICC board accepting, and on the cables sale being dropped. Traders suggested that the future of BICC now rested in the hands of two of its largest shareholders. Deutsche Morgan Grenfell has 10.8 per cent and Capital Group, the US investor, has 7.2 per cent. Those stakes could combine with Wassall's 9.3 per cent to form a substantial vote against the cables sale.

Traders suggested that institutional investors, which also include Prudential with 5.7 per cent and M&G with 3.8 per cent, would be balancing the effect of the sale against the chance that Wassall would walk away.

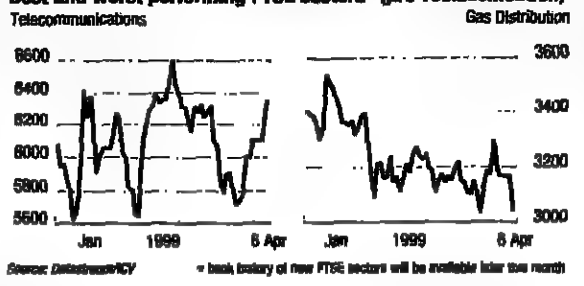
However, the BICC share price, which was last night bid at 105p, is now substantially below some sum-of-the-parts valuations. Investec Henderson Crosthwaite has a 140p valuation.

Telecoms remained a busy trade. Confirmation from **Cable and Wireless** on Tuesday that it was considering a part merger of its UK cable interests with Telewest Communications only served to increase demand for both stocks. The former hardened 22 to 797½p in trade of 8m, the latter appreciated another 23 to 319½p, the best performer in the FTSE 100. Turnover was 14m.

Colt Telecom improved 60 or just over 5 per cent to £13.55.

Best and worst performing FTSE sectors* (pre-reclassification)

Telecommunications / Gas Distribution



Source: Datastream/ICV · * back history of new FTSE sectors will be available later this month

FT 30 INDEX

	Apr 7	Apr 6	Apr 1	Mar 31	Mar 30	Yr ago	*High	*Low
FT 30	3905.5	3873.3	3838.8	3835	3902.9	3824.4	4004.9	2790.8
Ord. div. yield	2.83	2.85	2.89	2.70	2.79	2.86	4.22	2.72
P/E ratio net	23.94	23.73	23.40	23.38	23.10	24.77	25.41	15.80
P/E ratio nil	23.88	23.67	23.33	23.28	23.04	24.56	25.19	15.71

FT 30 since compilation: high 4004.9 7/15/98; low 49.4 6/26/40. Base Date 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3873.3	3913.0	3913.1	3914.6	3909.1	3908.1	3908.0	3905.1	3923.4	3873.3

STOCK MARKET TRADING DATA

	Apr 7	Apr 6	Apr 1	Mar 31	Mar 30	Yr ago
SEAQ bargains	97,297	102,707	108,789	97,705	92,879	n/a
Equity turnover (£m)†	-	8051.4	4324.9	4182.2	4204.1	n/a
Equity bargains†	-	96,875	95,684	90,961	77,589	n/a
Shares traded (m)†	-	1102.1	925.2	10101.8	998.0	
Total market bargains‡	-	110,790	103,470	95,842	91,466	-
Total turnover (£m)‡	-	8323.1	8017.5	6070.3	5836.0	-
Total shrs traded (m)‡	*1011.0	1452.8	1198.5	1333.0	1267.2	-
Tradepoint turnover (£m)	32.5	21.0	28.8	29.4	20.8	94.8
Tradepoint shrs traded(m)	9.9	9.7	11.4	11.7	8.8	19.4

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	873	Total Highs	134	Total contracts	39,838
Total Falls	498	Total Lows	27	Calls	15,654
Same	1,380			Puts	23,184

Apr 7 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

[illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stg Apr 6	Day's chge%	Euro Index	£ Stg Apr 1	£ Stg Mar 31	Year ago	Actual yield%
FTSE 100	6415.28	+1.3	7365.33	6330.02	6295.33	6093.97	2.16
FTSE 250	5456.73	+0.1	6264.83	5453.33	5475.30	5547.59	2.89
FTSE 250 ex Inv Co	5494.86	-0.1	6308.60	5498.78	5523.87	5586.34	3.02
FTSE 350	3037.87	+1.2	3487.75	3001.25	2991.17	2917.62	2.26

[illegible]

FTSE Actuaries Industry Sectors

[illegible]

Hourly movements

[illegible]

TRADING VOLUME

Major Stocks yesterday.

[illegible]

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Apr 7) 1 € = 13.76030 Sch

EUROPE (NON-EMU)

PACIFIC

AMERICAS

AFRICA

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY APRIL 6 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY APRIL 5 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	217.96	0.7	203.26	166.76	233.21	231.01	1.6	3.27	216.37	200.33	166.75	232.38	227.48	219.96	163.86	214.43
Austria (21)	183.67	1.4	171.28	140.54	173.41	173.41	1.1	2.04	181.08	167.68	139.56	171.61	171.61	253.73	165.27	225.19
Belgium (22)	367.39	1.3	342.60	281.11	339.61	339.61	1.0	1.89	362.55	335.67	279.42	336.40	336.40	446.95	313.27	313.27
Brazil (29)	144.73	2.2	134.96	110.74	154.86	460.20	2.2	5.30	141.57	131.06	109.11	152.05	450.17	269.34	89.32	284.03
Canada (113)	215.83	0.2	201.27	165.15	230.94	235.13	0.6	1.67	215.34	199.37	165.96	231.27	233.35	248.78	159.84	245.94
Denmark (34)	428.68	2.0	399.76	328.01	458.68	402.82	1.6	1.84	420.39	389.22	323.99	451.50	396.23	537.33	406.82	516.90
Finland (29)	697.30	1.6	650.26	533.55	808.49	808.49	1.2	1.45	686.44	635.56	529.04	798.90	798.90	697.30	338.49	392.61
France (74)	326.75	1.9	304.71	250.02	312.41	312.41	1.5	1.96	320.74	296.97	247.20	307.82	307.82	354.45	253.86	304.62
Germany (55)	253.14	1.3	236.07	193.70	239.18	239.18	0.9	1.66	249.92	231.39	192.61	237.01	237.01	325.61	226.35	277.92
Greece (36)	385.88	3.7	359.85	295.27	412.89	835.50	2.7	1.82	371.96	344.39	286.67	399.50	813.32	454.89	211.47	–
Hong Kong, China (66)	323.51	0.1	301.69	247.54	346.15	321.90	0.1	3.53	323.29	299.33	249.16	347.22	321.69	341.93	196.64	338.79
Indonesia (24)	45.30	-1.7	42.25	34.66	48.47	242.49	-1.2	1.20	46.10	42.68	35.53	49.51	245.48	84.52	19.04	58.74
Ireland (14)	541.58	1.6	585.85	414.40	558.46	558.46	1.2	1.84	533.32	493.78	411.03	552.00	552.00	605.85	396.15	515.45
Italy (53)	172.47	1.4	160.83	131.97	231.74	231.74	1.0	1.48	170.18	157.56	131.16	229.53	229.53	192.64	128.68	177.15
Japan (443)	114.35	2.1	106.63	87.50	122.35	87.50	1.4	0.84	112.01	103.70	86.32	120.30	86.32	114.35	76.83	92.82
Mexico (29)	1562.01	1.2	1456.64	1195.21	1671.33	18185.04	1.1	1.57	1543.71	1429.26	1189.74	1657.97	16013.96	1733.73	787.15	1637.72
Netherlands (26)	489.69	1.0	456.68	374.70	457.66	457.86	0.6	2.04	484.68	448.76	373.55	454.69	454.69	562.73	384.92	503.39
New Zealand (18)	52.68	-1.5	58.45	47.96	67.06	82.84	-0.9	3.81	63.64	58.92	49.06	68.35	63.41	78.03	45.68	73.64
Norway (37)	240.15	0.6	223.95	183.76	256.96	252.68	0.2	1.94	238.65	220.96	183.93	256.32	252.04	357.71	181.86	336.21
Philippines (22)	92.36	0.0	86.13	70.67	98.82	177.43	-0.1	0.83	92.33	85.49	71.16	99.16	177.61	101.69	42.48	99.17
Portugal (18)	230.63	1.4	215.08	176.47	294.07	294.07	1.0	1.11	227.48	210.62	175.32	291.15	291.15	299.39	194.13	–
Singapore (40)	232.71	1.9	217.01	178.06	248.99	185.84	1.8	1.45	228.31	211.38	175.96	245.21	182.65	232.72	102.45	215.84
South Africa (54)	205.49	-0.3	191.63	157.24	219.86	277.24	-0.1	3.47	206.10	190.82	158.84	221.35	277.48	346.20	151.55	321.21
Spain (30)	374.70	3.1	349.42	286.71	438.87	438.87	2.7	1.60	363.58	336.61	280.19	427.42	427.42	435.19	290.81	396.69
Sweden (41)	551.56	4.9	514.36	422.04	590.16	674.69	3.6	2.01	530.59	491.23	408.91	569.83	650.29	628.19	379.18	578.92
Switzerland (30)	388.69	1.0	362.47	297.42	415.89	357.44	0.5	1.19	384.95	356.41	296.68	413.44	355.71	441.65	307.73	404.97
Thailand (26)	24.16	-0.2	22.53	18.49	25.85	35.47	0.0	2.34	24.22	22.42	18.67	26.01	35.47	28.11	8.15	27.27
United Kingdom (201)	397.02	0.6	370.24	303.79	424.80	370.24	1.3	0.02	394.60	365.35	304.12	423.80	365.35	401.84	307.96	396.16
USA (607)	543.58	-0.2	506.91	415.93	581.62	543.58	-0.2	1.23	544.85	504.46	419.92	585.18	544.85	544.85	390.12	457.58
Americas (778)	483.32	-0.2	450.71	369.82	517.14	410.02	-0.2	1.26	484.27	448.37	373.22	520.11	410.75	484.27	347.59	414.73
Europe (721)	358.21	1.3	332.18	272.56	381.14	344.72	1.3	1.11	351.77	325.69	271.11	377.80	340.42	386.24	282.63	358.34
Eurobloc (342)	100.71	1.6	93.92	77.06	102.99	102.99	1.2	1.77	99.16	91.81	76.43	101.79	101.79	113.92	81.53	–
Nordic (141)	528.68	2.7	493.01	404.53	565.68	559.38	2.4	1.80	514.97	476.80	396.89	553.09	546.46	555.97	360.04	505.99
Pacific Basin (714)	121.47	1.8	113.28	92.95	129.97	95.61	1.2	1.30	119.37	110.52	92.00	128.20	94.43	121.47	82.88	104.16
Euro-Pacific (1435)	218.77	1.4	204.01	167.40	234.08	189.13	1.3	1.17	215.71	199.72	166.25	231.68	188.78	221.79	166.00	210.09
North America (720)	521.37	-0.2	486.20	398.94	557.86	522.28	-0.2	1.24	522.51	483.79	402.70	561.18	523.32	522.51	374.92	444.11
Europe Ex. UK (520)	324.91	1.6	302.99	248.61	347.65	322.17	1.2	1.69	319.74	296.04	246.43	343.41	318.28	366.82	260.93	328.49
Europe Ex. Eurobloc (379)	99.53	1.0	92.82	76.16	108.50	103.94	1.4	0.45	98.58	91.27	75.97	105.88	101.96	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (178)	96.11	1.8	89.62	73.54	102.83	97.92	1.4	1.45	94.40	87.40	72.75	101.39	96.60	109.21	75.16	–
Pacific Ex. Japan (271)	194.58	0.4	181.46	148.69	208.20	199.89	0.8	3.18	193.76	179.40	149.33	208.11	198.30	206.83	128.26	203.33
World Ex. Eurobloc (1905)	112.43	0.3	104.85	86.03	120.30	112.34	0.3	1.14	112.08	103.77	86.38	120.38	112.00	112.43	83.09	–
World Ex. US (1640)	218.83	1.4	204.06	167.44	234.14	194.60	1.2	1.23	215.89	199.89	166.39	231.87	192.24	221.91	165.95	214.30
World Ex. UK (2046)	316.39	0.5	295.05	242.09	338.54	288.01	0.3	1.37	314.88	291.53	242.88	338.18	287.06	316.39	236.11	282.98
World Ex. Japan (1804)	427.70	0.3	398.85	327.27	457.64	425.12	0.3	1.28	426.41	394.80	328.64	457.97	423.73	427.99	320.58	391.71
The World Index (2247)	323.36	0.5	301.55	247.43	345.99	295.59	0.4	1.23	321.77	297.92	247.99	345.59	294.30	323.36	242.36	292.53

Emerging markets: IFC investable indices

4 pm close April 7

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Financial Times Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. s/s- stock split. u-new yearly high. x-ex-dividend or ex-rights. xd-sold. Z-sales in full.

‡ Dealings suspended

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Apr 6	Apr 5	Apr 2	1999 High	1999 Low	Since compilation High	Since compilation Low
Industrials	9963.49	10007.33	(c)	10007.33 (5/4)	9120.67 (22/1)	10007.38 (5/4/99)	41.22 (8/7/32)
Home Bonds	104.13	104.02	(c)	106.88 (13/1)	103.95 (1/4)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3325.12	3353.40	(c)	3433.89 (18/3)	3063.80 (22/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	293.57	297.23	(c)	311.91 (4/1)	285.44 (12/2)	320.51 (8/10/98)	10.53 (8/7/32)

DJ Ind. Day's high 10097.25(10080.87) Low 9882.48 (9828.40) (Theoretical)
Day's high 10030.37(10023.15) Low 9915.76 (9836.12) (Actual)

Standard and Poors	Apr 6	Apr 5	Apr 2	1999 High	1999 Low	Since compilation High	Since compilation Low
Composite‡	1317.89	1321.12	(c)	1321.12 (5/4)	1212.19 (14/1)	1321.12 (5/4/99)	4.40 (1/6/32)
Industrials‡	1591.46	1593.19	(c)	1593.19 (5/4)	1461.72 (14/1)	1593.19 (5/4/99)	3.52 (30/6/32)
Financial‡	141.46	142.52	(c)	145.47 (15/3)	123.72 (9/2)	147.88 (14/7/98)	7.13 (4/9/74)
Others							
NYSE Comp.	612.32	614.83	(c)	617.91 (18/3)	576.82 (9/2)	617.61 (18/3/99)	4.84 (25/4/42)
Amex Comp	715.21	721.24	(c)	721.66 (11/3)	683.61 (4/1)	763.87 (22/4/98)	534.20 (16/7/96)
NASDAQ Cmp	2563.17	2590.05	(c)	2590.05 (5/4)	2208.05 (4/1)	2590.05 (5/4/99)	54.87 (3/10/74)
Russell 2000	401.05	402.29	(c)	433.13 (11/1)	383.37 (23/3)	491.41 (21/4/98)	123.36 (7/13/89)

■ RATIOS

	Mar 26	Mar 19	Mar 12	Year ago
Dow Jones Ind. Div. Yield	1.61	1.60	1.60	1.30
	Mar 31	Mar 24	Mar 17	Year ago
S & P Ind. Div. yield	1.11	1.13	1.11	1.31
S & P Ind. P/E ratio	40.39	39.72	40.63	30.64

US DATA

■ MARKET ACTIVITY

● Volume (million)	Apr 6	Apr 5	Apr 1
NYSE	787.510	695.830	705.890
Amex	28.812	27.571	23.364
NASDAQ	1120.174	893.255	853.497

NYSE	Apr 6	Apr 5	Apr 1
Issues Traded	3,562	3,568	3,536
Rises	1,181	1,602	1,519
Falls	1,787	1,308	1,446
Unchanged	604	5596	572
New Highs	72	72	38
New Lows	111	79	100

■ NYSE TRADING ACTIVITY — Volume : 787,510,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Am Online	20,885,800	187½	+⅛
Lucent Tech	20,040,700	84¾	+5¾
Gillette	16,387,500	58	-7⅝
AT & T	9,630,500	80	+2⅞
Ph Morris	8,440,400	34⅝	-⅛
CBS Corp	7,536,000	43⅞	+1⅝
Compaq	7,407,200	30⅝	-⅞
Citigroup	6,040,600	67⅛	+⅛
Walt Dsny	5,816,100	30¾	-⅜
Pepsi Bt	5,589,100	20⅞	-⅛

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Wall Prepaid	11⅜	+4⅝	+68.1
Software Sys	6⅝	+1⅛	+21.7
KV Pharm A	15⅞	+2⅞	+21.6
KV Pharm B	15⅝	+2⅝	+20
Downs			
Ald Hldgs	6⅛	-2⅝	-30.7
Cons Lab	12⅛	-5⅛	-30.7
Intr Hlth SVC	3⅝	-1⅛	-23.8
Pediatrix	14½	-2⅝	-15.3

■ NASDAQ TRADING ACTIVITY — Volume :1,120,174,000

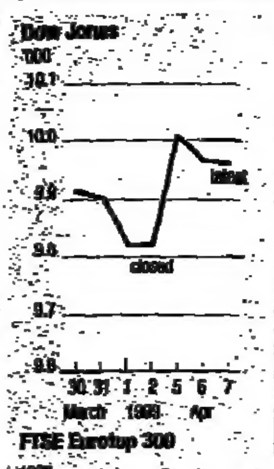
■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Dell Cmptr	47,302,700	46⅞	+2⅝
Yahoo	25,018,800	214⅝	-4⅛
Oracle Cp	24,973,300	23⅜	-1⅝
MCI Worldcom	22,093,200	88⅞	-2⅞
Nabsk Assc	21,742,160	21⅞	-7⅝
Microsoft	19,831,500	94⅛	-⅜
Sun Micro	17,718,300	140⅝	+10⅝
Intel Cp	17,665,500	130⅛	+2⅞
Nextel Cm	17,129,300	39⅛	-⅛
Cisco Sys	12,590,900	115⅛	+⅞

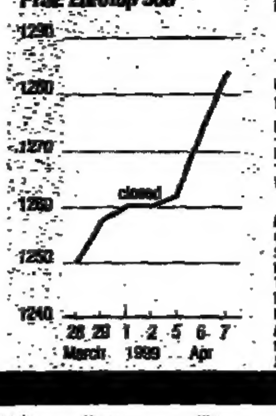
■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
TCI Music	29⅞	+21⅛	+252.8
Hewlett Dent	5⅝	+3⅛	+131.6
Clairocmet	16⅝	+8⅝	+108.3
Atlantic Bk	17⅝	+8⅝	+98.2
Downs			
Valley Natl	18	-18⅛	-50.7
KSB Bancorp	8	-5⅝	-41.3
Wellington Py	4	-1⅞	-29.7
Novel Genes	6⅞	-2⅞	-29.9

Dow Jones



FTSE Eurotop 300



JAPAN

	Apr 7	Apr 6	Apr 5	1999 High	1999 Low	Since compilation High	Since compilation Low
Nikkei 225	16554.50	16479.71	16224.70	16684.69	13232.74	38915.87	85.25

Day's high: 16563.20. Day's low: 16341.25.

■ TOKYO TRADING ACTIVITY — Volume : 788,810,000

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Toshiba	18,817,000	845	+31
Sakura	17,418,000	397	+19
Fujitsu	13,380,000	800	+14
Kobe St	12,880,000	102	+5
AsahiMut	12,383,000	141	+8
Hitachi	11,780,000	950	+1
UBE	9,853,000	382	+23
SumMet	9,185,000	153	+6
NKK	8,978,000	92	+2
NipStl	8,438,000	285	+5

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
ToyotaN	161	+23	+16.7
MeijiS	716	+100	+16.2
UniRx	88	+12	+13.6
Reprocom	107	+12	+12.6
Downs			
TenCrp	205	-12	-5.5
HRetk	521	-29	-5.3
Iwata	261	-14	-5.1
DenshHe	1370	-69	-4.8

FRANCE

	Apr 7	Apr 6	Apr 5	1999 High	1999 Low	Since compilation High	Since compilation Low
CAC 40	4318.04	4304.46	closed	4318.04	3958.72	4388.48	984.61

Day's high: 4351.80. Day's low: 4298.06.

■ PARIS TRADING ACTIVITY — Volume : (u)

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
FrTele	2,580,475	81.35	+1.45
Usinor	1,807,318	12.85	+0.28
Rnault	1,382,766	32.28	-0.37
RhonPA	1,158,689	41.1	-0.5
Axa	1,077,969	129.8	+2.8
BNP	998,539	78.5	-2.7
EliAqu	771,342	127.3	+1.3
AirFrn	670,711	16.22	+0.61
Alctel	669,552	110.4	-1.5
Lgardr	594,045	30.3	+0.2

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
GalLaf	1094	+69	+6.8
Legrnd	207	+12.5	+6.4
Valrc	29.96	+1.75	+6.2
Atos	88	+5	+6.0
Downs			
ErBSey	132.2	-6.8	-4.9
Alstom	26.79	-1.32	-4.7
Eramet	34.1	-1.29	-3.6
Ismbnq	106	-4	-3.6

GERMANY

	Apr 7	Apr 6	Apr 5	1999 High	1999 Low	Since compilation High	Since compilation Low
DAX	5052.27	4985.20	closed	5443.82	4578.72	6171.43	931.18

Day's high: 5058.06. Day's low: 4985.52.

■ FRANKFURT TRADING ACTIVITY — Volume : (u)

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
BASF	416,428	30.05	+0.6
Cmrzbk	375,401	29.55	+0.95
Siemens	336,235	63.65	+2.75
Lufthsa	308,539	21.12	+0.22
Thyssen	298,971	19.6	+0.4
Bayer	288,368	35.9	+0.35
Dt Bk	287,584	48.05	-0.1
DrsdCh	281,280	63.9	+0.4
Mnsmn	223,923	129	-1.35
Dt Tel	273,175	40.15	+1.2

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Paulie	54.5	+4.4	+8.8
SKW	21.6	+1.7	+8.5
SGLCar	42.2	+3	+7.7
Krsttl	362.5	+24	+7.3
Downs			
BhHlds	84	-7.9	-8.6
Colfas	92	-6	-6.1
GrohPf	211	-9	-4.1
FlexPf	32.2	-1.3	-3.9

UK

	Apr 7	Apr 6	Apr 5	1999 High	1999 Low	Since compilation High	Since compilation Low
FTSE 100	6473.2	6415.3	closed	6473.20	5770.20	6473.2	986.9

Day's high: 6496.1 Day's low: 6415.3.

■ LONDON TRADING ACTIVITY — Volume : 1,811,000,000

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Marks&Spr	28,158,140	436¾	+½
BP Amoco	25,012,900	1012½	+1
Shell T&T	24,748,890	415½	-3¼
BTR Siebe	19,491,280	287½	+4¾
Unilever	17,186,380	559	-8½
TeleWest	14,485,290	319¼	+23
Stanley Ls	12,780,660	283¾	-9½
BT	12,759,890	1085	+3
Glaxo Wlcm	12,433,650	2185	-29
Rolls-Royce	12,223,040	272¾	+1¼

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Foster (J)	15¾	+5¼	+50
UNO	48½	+12½	+34.7
Celebrated	4½	+1	+28.6
Tadpole Tech	15¾	+2	+15.1
Downs			
Wellington	52½	-7½	-12.5
Xaar	85½	-9½	-10
Fairbriar	20½	-2	-8.9
Pilat Techn	10½	-1	-8.7

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Jun	1308.50	1335.50	+2.10	1337.50	1335.00	86,975	368,258
Sep	1343.00	1347.50	+1.40	1350.00	1347.50	383	4,974
■ Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open Int.**
Jun	16390.0	16500.0	+50	16570.0	16320.0	35,502	210,977
Sep	16300.0	16500.0	+200.0	16600.0	16300.0	55	4,346

Open interest figures for previous day.

■ CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Mar	4340.0	4317.0	+6.0	4357.0	4295.0	55,114	108,044
Apr	4321.0	4305.0	+6.0	4321.0	4321.0	1	486
■ DAX							
Jun	5019.0	5025.0	-22.0	5077.5	5003.5	43,488	298,665
Sep	5058.0	5080.0	+18.0	5107.5	5037.5	94	1,099

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Apr	786.00	785.25	-1.75	771.00	761.00	25,882	112,170
May	761.25	763.50	+1.00	767.50	761.25	389	3,110
■ EUREX							
Jun	7129.0	7164.0	+43.0	7210.0	7111.0	15,801	102,221
Sep	7147.0	7181.0	+59.0	7200.0	7147.0	104	3,818

WORLD MARKETS AT A GLANCE

Country	Index	Apr 7	Apr 6	Apr 5	1999 High	1999 Low	Yield	P/E
Argentina	General	17667.66	17848.36	17763.58	18163.16 6/1	14484.80 14/1	3.83	14.2

Tracked regional markets higher in early trading.

Country	Index	Apr 7	Apr 6	Apr 5	1999 High	1999 Low	Yield	P/E
Australia	All Ordinaries	3029.6	3032.9	(c)	3032.90 6/4	2804.80 14/1	2.94	23.4
	All Mining	558.3	558.0	(c)	613.50 12/1	558.30 7/4		

Further gains in News Corp restricted All Ords losses while falls beat rises by 4 to 3 and resources fell 1.7 per cent.

Country	Index	Apr 7	Apr 6	Apr 5	1999 High	1999 Low	Yield	P/E
Austria	ATX Index	1203.51	1207.12	(c)	1213.35 18/3	1011.25 22/1	1.95	13
India	BSE Sens.	3588.80	3593.47	3519.35	3794.11 9/3	3122.04 4/1	na	na
	S & P CNX 500	722.41	716.75	714.77	759.25 31/3	593.19 4/1		

Political uncertainty capped gains, with market ending higher but off previous highs.

Country	Index	Apr 7	Apr 6	Apr 5	1999 High	1999 Low	Yield	P/E
Indonesia	Jakarta Comp.	395.91	395.51	395.33	457.84 7/1	372.31 15/3	2.49	17.5

Overshadowed by reports of unrest in various parts of the country.

Country	Index	Apr 7	Apr 6	Apr 5	1999 High	1999 Low	Yield	P/E
Portugal	BVL 30	4727.36	4717.97	(c)	5258.85 6/1	4370.85 18/3	2.16	28
	PSI 20	10916.55	10897.03	(c)	12120.85 6/1	10083.06 18/3		

Last minute bout of profit-taking wiped out earlier gains. Portugal Telecom gave up 0.5 per cent after morning rise.

Country	Index	Apr 7	Apr 6	Apr 5	1999 High	1999 Low	Yield	P/E
Russia	RTS	72.98	75.51	79.24	88.82 17/3	54.48 28/1	na	na

Sustained local selling sent market lower at close amid renewed worries about IMF loans to mission visited Moscow.

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THE NASDAQ-AMEX MARKET GROUP

4 pm close April 7

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AMEX

4 pm close April 7

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EASDAQ

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STOCK MARKETS

Surging Asia takes bull market by horns

WORLD OVERVIEW

Equity markets continued the bullish run that has let many reach all-time highs or their best for some time, *writes Philip Coggan*.

Hong Kong led the way, with the Hang Seng index jumping nearly 5 per cent to a 12-month high, aided by hopes that China would soon join the World Trade Organisation. Korea and Singapore reached 19-month and 17-month highs respectively.

The FT/S&P Pacific Basin (ex-Japan) index followed up its fourth-quarter rebound with a solid 5.4 per cent gain in the first quarter of 1999 and international investors seem to be gradually returning to the region.

In Europe, investors continued to be buoyed by hopes that interest rate cuts might be sanctioned by either the European Central Bank or the Bank of England today.

Further signs of the weakness of the German economy came with a fall of the services index below 50, an indication that activity is shrinking. Other recent data have shown sluggish activity in France and Italy.

Most bourses closed below their best levels of the day but the Dax in Frankfurt consolidated its position above the 5,000 level while the CAC 40 in Paris gained 0.3 per cent. The continuation of hostilities in Kosovo, despite Yugoslavia's ceasefire declaration on Tuesday, did not have a big impact on the markets.

On Wall Street, the Dow Jones Industrial Average bounced back above the 10,000 level in early trading, before a sell-off in technology stocks caused the US market to lose ground.

Despite the recent profit warnings from Coca-Cola and Gillette, I/B/E/S International, the information company, notes some encouraging signs in the run-up to the US first-quarter results season. Only 74 per cent of companies that have made pre-announcements have had bad news for investors, compared with 84 per cent in the fourth quarter of 1998.

But the gap between the equity earnings yield and the bond yield has risen further – to 29 per cent. According to I/B/E/S, the only period in the past 20 years when the gap was this wide was in the two months preceding the crash of 1987. The strategy team at HSBC have noticed this overvaluation in the US but argue that without at least one Fed funds hike, the bubble is not likely to burst.

"We forecast the US market merely to tread water over the next year," they said. "Given a small rise in earnings, and some decline in bond yields, this scenario would reduce the current overvaluation. We do, however, remain underweight US equities."

Weak techs give Nasdaq a headache

AMERICAS

US stocks continued to move narrowly in early trading. Volumes stayed heavy, with technology shares generally easier but with several high-climbers boosting blue chips, *writes John Labate in New York*.

The Dow Jones Industrial Average was up 16.65 at 9,980.14 by early afternoon. The broader Standard & Poor's 500 index was less than one point lower at 1,317.75. Weakness in the high-tech sector sent the Nasdaq composite index down 25.77 or more than 1 per cent at 2,537.40. Declining shares outpaced climbers 5 to 4 on the NYSE.

Software company Oracle tumbled more than 8 per cent to $21⅞ after the company announced a new alliance with another software concern. Investors skimmed profits from other leaders in the sector, including Microsoft, down $2⅝ to $91⅛. In the internet sector, Amazon.com was off $7⅛ at $175⅝.

Several notable gainers helped lift the Dow, including Walt Disney, up $1⅞ or more than 6 per cent at $32⅝.

Alcoa gained nearly 4 per cent to $42⅞ on positive sentiment about its quarterly earnings release. Financial stocks were among the best sectors early on, with Citigroup, a Dow stock, up $3¼ at $70¾.

Banking stocks remained strong, helped by early gains for debt markets. Chase Manhattan advanced $3⅛ at $83⅛.

US Treasury bonds moved higher just before the afternoon auction of $7bn in 30-year inflation-protected issues. The 30-year bond had gained ⅛ to 96⅛, yielding 5.511 per cent in early afternoon trading.

Disposal speculation got firmly behind Revlon, which jumped $3⅛ to $23⅛ after the cosmetics leader confirmed it was exploring a possible sale of its core units.

In the auto sector, Ford Motor climbed $2⅛ to $60⅛ after the release of overall strong monthly and quarterly sales figures.

TORONTO was little changed in early trading, although there was no shortage of firm features among leading stocks.

Toronto-Dominion Bank and drinks and entertainments giant Seagram both pushed ahead strongly on a variety of internet-related speculation.

Seagram, which announced plans to form an on-line music retail venture with Germany's Bertelsmann, rose C$3.20 to C$85.65 in heavy volumes.

Toronto-Dominion, Canada's fifth biggest bank, gained C$1.75 to C$77.60 after positive comment on the group's plans to float 10 per cent of its on-line brokerage business.

Other banks were mixed. Royal Bank of Canada lost 80 cents at C$72.20 while Canadian Imperial hardened 10 cents to C$38.85. Conglomerate Canadian Pacific improved 35 cents to C$29.80.

Golds were listless. Barrick shed 15 cents at C$25.05 while Placer Dome edged up 5 cents to C$16.05.

By the noon calculation the 300 composite index was off 9.11 at 6,759.40.

Mexico City in reverse on low-volume sell-off

MEXICO CITY met with profit-taking in early trading that reversed a recent strong run for equities with a decline of 77.23 or 1.5 per cent to 5,069.56 on the IPC index.

However, selling was mostly concentrated in a handful of blue chips while volumes were far from heavy. Momentum remained positive with gainers outpacing falling stocks by around two to one.

Construction leader Grupo Tribasa fell 1.32 pesos to 4.80 pesos after a credit rating downgrade by Standard & Poor's.

SAO PAULO continued to improve following positive inflation data and amid signs that foreign investors were returning.

Inflation for March slackened to 0.6 per cent from 1.4 per cent in February. At midsession, the IPC index was up 82 at 11,248.

Zurich confounds timid Dow

EUROPE

A powerful run by the UBS banking giant allowed ***ZURICH*** to finish 46.8 better at 7,216.8 on the SMI index in spite of the uncertain opening on Wall Street.

UBS racked up gains close to 3 per cent at one stage on rumours ranging from a big property disposal to a takeover approach in the shape of an "ambitious bid" from outside Switzerland.

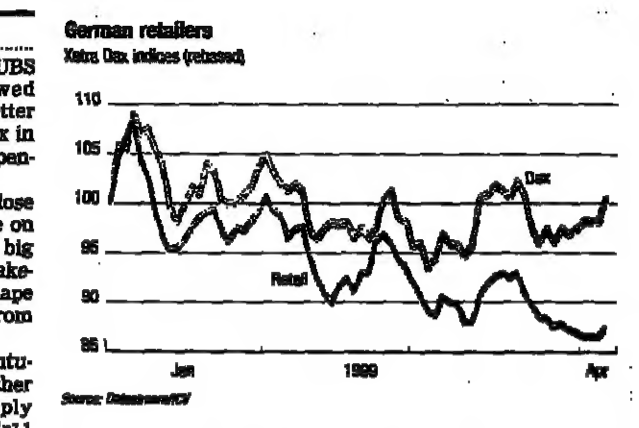
The disposal was eventually confirmed but the other rumours remained simply that. UBS ended SFr11 higher at SFr483 in turnover that totalled SFr498m.

In drugs, Novartis added SFr17 at SFr2,407. Among smaller caps, the high-tech sector stood out. Distefora jumped SFr9.50 to SFr88.50 and Kudelski SFr435 to SFr6,640.

The FTSE Eurotop 300 index rose 9.85 or 0.77 per cent to 1,284.20. See Euro Prices page.

FRANKFURT ran into *profit-taking* late in the day to close with the Xetra Dax 4.98 higher at 5,027.25. This was 36 points short of the benchmark's high for the session.

Retailers were resilient, helped by sector consolidation stories and the period of relative underperformance that the sector has endured. Hopes for an interest rate cut today from the European Central Bank also boosted sentiment.



Karstadt, which touched €353 at one stage, ended €18.40 or 5.5 per cent higher at €346.98, while Metro added €1.25 at €60.70.

Deutsche Telekom gained 50 cents to €39.90 after positive comment from brokers. Siemens was said to have met with technology-driven buying, improving €1.05 to €62.25.

PARIS rose steadily in the morning before running out of steam in the last minutes of the session. The CAC-40 closed 13.56 higher at 4,318.04, a fresh 1999 record but still off its life high of 4,388.48, reached in July last year.

Strength in France Telecom, the largest constituent in the CAC-40, helped sustain the positive momentum. Shares closed €1.45 higher to €81.35. Strong March sales figures from Carrefour, coupled with rumours of sector consolidation, sent retail issues sharply higher. Carrefour rose €1 to €715, while Casino added €4.40 or 5.4 per cent to €86.50 and Promodès gained €33.50 or 5.8 per cent to €616.

Volatile Bic, the lighter and pen manufacturer, jumped after SG Securities added the stock to its model portfolio. The share rose 69 cents to €49.19. Accor, which was dropped from the list, ended €6.80 lower at €219.80.

Luxury-goods group LVMH weakened on uncertainty surrounding its bid for the Italian fashion house Gucci. Speculation emerged yesterday that talks between the two could wrap up soon. LVMH ended €5.40 lower but off previous lows at €227.60.

Bank stocks lost ground after Société Générale and Paribas rejected BNP's hostile bid on the two companies. The decision, which ruled out a counter-offer on BNP, left SocGen €4.20 lower at €176.20, while BNP lost €2.70 to €76.50.

AMSTERDAM rose 6.21 to 542.55 on the AEX index, with strong gains at Ahold and KPN supplying plenty of motive power.

Retailer Ahold jumped €1.95 or 5.45 per cent to €37.70 on news of a $170m takeover in the Dutch institutional food supplies market. KPN shared fully in the rally for telecoms shares, adding €2.95 or 8.1 per cent at €39.45.

Elsevier fell on management uncertainty. Two senior directors resigned on Tuesday amid news that the group was still searching for a chief executive. Its shares lost 35 cents to €13.45 for a two-day decline of 4.1 per cent. VNU was also a dull market, slipping €1.05 to €35.20.

Gucci, at a peak of €78.80 late last month as hopes of an LVMH takeover rose, fell back on profit-taking, dipping €2 to €73.10.

MADRID closed little changed, as the market sobered up following Tuesday's last-minute rally driven by Yugoslavia's ceasefire offer. The general index settled 1.46 higher to 889.29.

Telefónica followed other European telecom stocks upwards, lending support to the market. Shares in the telecoms operator ended €1.14 higher to €42.64, while equipment maker Amper, Telefónica's main client, added €1.15 or 7.4 per cent to €16.68.

HELSINKI succumbed to profit-taking, with losses in Nokia weighing on the main index. The Hex index gave up 1.24 to 6,841.02, in a market lacking direction ahead of the ECB council meeting today.

Merita recouped some of this year's sharp losses, closing 22 cents or 4.5 per cent higher to €5.14 on rate cut hopes. Sonera, the mobile phone operator, also bucked the trend, adding €45 to €16.90 on renewed interest from foreign investors. Mobile phone giant Nokia, in contrast, retreated 85 cents to €151.40.

MILAN closed virtually unchanged as renewed worries about Kosovo wiped out earlier gains. The all-share Mibtel index settled 64 higher to 25,175 in subdued trading.

Olivetti remained in focus after shareholders approved a capital increase to finance its $65bn bid for Telecom Italia. Shares in the company rose 4 cents to €2.90, while Telecom Italia conceded 10 cents to €9.32.

Written and edited by Jeffrey Brown, Bertrand Benoit, Paul Gregan and Julian Summers

Financials pull back Jo'burg

SOUTH AFRICA

Johannesburg was buffeted by a sell-off for financials. At the close of trading the all-share index was modestly softer at 6,404.0, down 2.8 points.

Financials provided the strongest drag on market sentiment, slipping 0.8 per cent to 9,163.7, while industrials shed 0.3 per cent to 7,444.6.

Golds rallied, adding 1.4 per cent to 2,892.7, helped by a 3.6 per cent gain to R36.45 for Gold Fields.

Tokyo hits eight-month high

ASIA PACIFIC

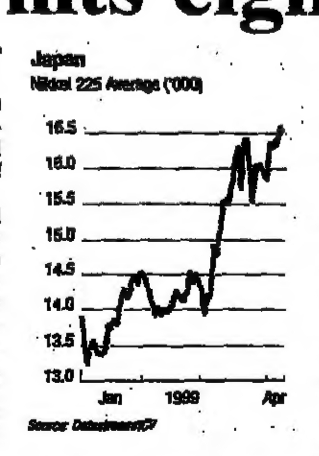
Shares in **TOKYO** rose to an eight-month high as the Nikkei 225 Average clambered above 16,500, *writes Paul Abrahams*.

The benchmark gained 74.8 to 16,554 as foreign investors continued to snap up stocks. It traded as high as 16,563 and as low as 16,341. The other main indices were also up marginally. The more representative, weighted Nikkei 300 gained 0.16 to 266.28. The Topix index of all first-section shares gained 2 to 1,324.

The rubber products sector was among the best performing, up 3.7 per cent. Bridgestone, a favourite with international investors, gained Y130 or 4.6 per cent to Y3,100. Sumitomo Rubber, which recently concluded an alliance with Goodyear of the US, rose Y35 to Y808.

Among other stocks popular with foreign buyers, Toshiba, the electronics conglomerate that is in the process of a radical restructuring, continued its strong run, up Y31 to Y846 in heavy trading. Hitachi gained Y1 to Y950.

A story in the Nikkei newspaper that Mitsubishi Motor and Mazda were considering a broad business and technology alliance was denied by Mitsubishi. Even so, its stock gained Y26 to Y458, while Mazda put on Y27 to Y472. Suzuki, whose mini-vehicles are selling well, hit a record high of Y1,679, up Y20.



The steel sector performed strongly, up 2.4 per cent. Kobe Steel gained Y5 to Y102, while NKK rose Y2 to Y82. Nippon Steel advanced Y5 to Y265.

In Osaka, the OSE index closed up 141 at 17,775.

HONG KONG swept back into action after the long Easter break, with the Hang Seng index climbing steeply in good trading volumes. The benchmark rose 541.89 or 4.9 per cent to 11,614.87, its best level for 12 months.

Turnover for the session was HK7.9bn, up from last Thursday's pre-holiday HK3.3bn, with brokers claiming that foreign funds had re-entered the market aggressively, buying for the second quarter.

A range of blue chips hit 1999 peaks, including HSBC, which gained HK$15.00 or 6.1 per cent at HK$263, helped by news of a US listing for the shares. Cheung Kong gained HK$3.50 at HK$83.50 and Sun Hung Kai HK3.50 to HK$62.25.

Telecoms were also active. HK Telecom added 80 cents at HK$16, while SmarTone, in which BT of the UK is taking a 20 per cent stake for HK$3bn, ended 85 cents higher at HK$23.35 after reaching a session peak of HK$24.30.

WELLINGTON touched a fresh low for 1999 as investors sold market heavyweight NZ Telecom and showed signs of reserving funds for the forthcoming Contact Energy flotation, which may soak up NZ$1bn of investment funds when the offer goes ahead next month.

The 40 capital index fell 30.23 or 1.4 per cent to 2,104.94. NZ Telecom shed 12 cents to NZ$8.95 in 23.3m shares traded. Fletcher Paper lost 3 cents at NZ$1.13.

BANGKOK ended sharply higher, tracking robust gains in other Asian markets. Sustained foreign buying after the Easter lull lifted the SET index 8.79 or 2.5 per cent higher to 359.52, just a shade below the crucial 360 mark.

Most of the trading concentrated on bank stocks, with Bangkok Bank rising Bt1.50 to Bt55.50, while Krung Thai Bank added Bt1 to Bt18. Siam Commercial Bank gained Bt0.50 to Bt18.75.

MANILA welcomed lower March inflation figures than expected and hopes of a fall in interest rates. The composite index settled 26.81 or 1.3 per cent higher to 2,070.17, with gains spread across the board.

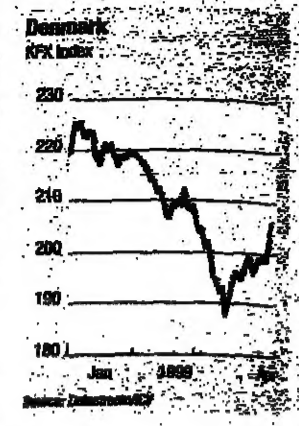
News that March inflation rose by 8.7 per cent year on year, compared with a 9.9 per cent increase in February, buoyed the market. Bank and property stocks rose sharply on expectations of lower interest rates.

C&P Homes rose 10 centavos to 80 centavos, while Far East Bank moved 50 centavos ahead to 55 pesos.

MARKET FOCUS

KFX feels chill outside euro

Stuffing the cash under the proverbial mattress would have been a more profitable option for investors than buying into the Danish stock market this year.



With Copenhagen's All-Share index down 4.6 per cent since the start of the year and the KFX blue-chip index off 6.5 per cent, Danish share indices have underperformed every other developed market.

Over the last three months, only emerging markets like Sri Lanka, Venezuela and Hungary have fared worse. Some of Denmark's biggest companies have been hardest hit.

Telecommunications company Tele Danmark has dropped 18 per cent since the start of the year, pharmaceuticals company Novo Nordisk has shed 8 per cent and brewer Carlsberg, under pressure from cheaper competitors and unfavourable growth prospects, has plummeted 25 per cent.

Among the reasons cited by analysts are the country's position outside the eurozone, deteriorating economic growth, a decline in industrial competitiveness, increasing unit labour costs and a strengthening of the Danish krone.

"The Danish economy has had six years of very high growth, but expectations as to industrial performance are now very low and consumer sentiment is also weak," says Keld Holm, head of research at BG Bank in Copenhagen. In this environment, it is difficult for companies to earn money and BG Bank expects the Danish economy to grow only 0.5 per cent or less this year.

According to a survey last week from Greens Analyseinstitut, earnings in 73 per cent of the country's biggest companies either dropped or marked time during the first quarter.

Company bosses are more pessimistic about business prospects in the next six months than they have been since the depths of the last recession in 1993.

Faced with such an outlook – weakening industrial earnings and the consequent possibility of lower dividends – small wonder overseas investors are bypassing the Danish stock market.

In terms of market capitalisation, the combined value of shares quoted on the Copenhagen Stock Exchange has declined from DKr784bn at the start of this year to DKr774bn. Yesterday the KFX index closed at 205.73, down 6.2 per cent since the start of the year.

By comparison, stock markets in the three other European Union countries outside the single currency have all gained since January 1. Sweden's General index is up 9 per cent, the FTSE 100 in London has advanced 9.1 per cent and in Greece, the Athens index has surged 21 per cent.

Whether or not the decline in the Danish stock market has bottomed out depends on performance elsewhere in Europe.

Should Europe suffer a correction, Denmark will follow suit, but is unlikely to fall as hard as the rest. And should European share prices track upwards Denmark could be ripe for bargain-hunting.

Clare MacCarthy